July 1959

THE CANADIAN CHARTERED ACCOUNTANT

The Administration Executive

Valuation of an Insurance Agency

Techniques of Personnel Evaluation

Guide to Liability Insurance Coverage

Source and Application of Retained Earnings

Organizing for Effective Management

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MONTHLY FEATURES

The Canadian Chartered Accountant, July 1959. Published monthly by the Canadian Institute of Chartered Accountants. Chairman, Editorial Board, H. S. Moffet, F.C.A.; Editor, Renny Englebert; Asst. Editor, Jean Vale. Advertising Representative, E. L. Vetter. Editorial and Business office: 69 Bloor street east, Toronto 5. Subscription rates: $6 a year; 60 cents a copy. Printed by General Printers Limited and mailed at Oshawa, Ontario. Authorized as second class mail by the Post Office Department, Ottawa. Opinions expressed are not necessarily endorsed by the Canadian Institute.

IN THIS ISSUE

R. O. MOORE, C.A. (page 17)

With the ups and downs of our present-day economy and the increasing complexity of business, demands on management in the years to come will be rising steadily and steeply. We find ourselves heading into an era where only improved management performance can bring about continued growth and development, and the achievement of this is dependent upon proper organization. It has been stated that "good organization structure does not by itself produce good performance", but it is equally true that a weak organization structure has no chance at all of effecting good performance. Most companies go through many stages in their organizational development, says Ronald O. Moore, in "Organizing for Effective Management"; the problem is to decide on the proper form of organization at each stage and when it is time to pass on to the next one. The author presents a number of basic principles which he feels should be the foundation of any sound plan of organization.

Mr. Moore is a partner in Woods, Gordon & Company, joining the firm in 1949 upon receiving his certificate in chartered accountancy. He is a member of the Toronto Board of Trade and chairman of the Board's Clerical Salary Survey Committee. He is also chairman of the Office Management Committee of the United Appeal Fund and Treasurer of the Children's Aid Society of Metropolitan Toronto.

J. W. VAIR, C.A. (page 24)

In "Source and Application of Retained Earnings", James W. Vair pursues the question as to whether profits measured in accordance with conventional accounting principles are real profits if they do not represent amounts available for distribution. The author rejects the claims of the replacement value school and reduces the problem to a matter of disclosure. He illustrates the adaptation of conventional accounting statements to provide for more informative reporting in those situations where retained earnings have been invested in fixed or other long-term assets. He emphasizes the desirability of using a term in financial statements such as "earnings retained and invested in business" rather than "earned surplus", with a view to correcting any misconception by the public that surplus may be something over and above what is required to maintain the continuity of the business.

Mr. Vair is a partner in the Toronto offices of Thorne, Mulholland, Howson and McPherson and joint manager of the firm's management services division. The author of other articles in *The Canadian Chartered Accountant* ("Planning in a Public Accountant's Office", October 1958), he is a member of the Institute of Chartered Accountants of Ontario and the Society of Industrial and Cost Accountants.

D. B. GARFAT (page 30)

One of the most difficult problems with which management is confronted is the method of valuing a business that it intends to purchase where the assets are largely intangible. A case in point is an insurance agency and in "Valuation of an Insurance Agency", Donald B. Garfat covers some of the essential features that

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must be considered in every agency sale or purchase. His suggestions may serve as a guide to others involved in similar situations.

In February of this year *The Canadian Chartered Accountant* began a series of articles on "The Valuation of Private Business and Professional Practice", of which this is the third. Further articles will be published in forthcoming issues of the magazine. Mr. Garfat is a director of the Toronto firm of Tomenson, Saunders, Smith and Garfat Limited and gained first-hand knowledge of his subject when he amalgamated his own agency with Tomenson, Saunders and Smith in 1937. Since then the firm has purchased various insurance agencies so that the present article is a direct outgrowth of his personal experience.

J. J. MACDONELL, F.C.A. (page 33)

A generation ago anybody reading James J. Macdonell's "The Administration Executive" would certainly have been amazed by the author's outline of the probable changes to come in administrative processes, but that would have been before the tremendous technological advances of the past 20 years. Today the administrative executive faces a future involving new frontiers of opportunity, risk and challenge, and, says the author, "It can no longer be doubted that we are moving toward a complete revolution in the organization of the administrative processes in business." In dealing with some of the formidable forces and influences in the typical company structure, he suggests a pattern for organizing for reorganization. This includes the establishment of a new top-level execu-

tive function and a variety of others that are likely to emerge from it.

Mr. Macdonell, a partner of Price Waterhouse & Company, has been in charge of management advisory services for the firm in Canada since 1945. He qualified as a chartered accountant in 1937 and spent the next eight years as an administrative accountant with Canadian Industries Limited. A former chairman of the Editorial Board of *The Canadian Chartered Accountant*, he has served on a number of committees of the Canadian and Quebec Institutes and in 1956 was named a Fellow of the Institute of Chartered Accountants of Ontario. He is a frequent speaker and writer on management topics, and this article is part of an address presented in May to the 40th international conference of NOMA held at New Orleans.

C. I. PROVERBS (page 41)

The value of insurance is indisputable. Claims for bodily injury and property damage run into enormous amounts and every Canadian business man, if he wants to protect his way of life and his possessions, must provide himself with appropriate coverage against existing risks. It is to this problem that C. Ivor Proverbs has addressed himself in his article "Guide to Liability Insurance Coverage" in which he reviews two types of insurance — "Comprehensive" and those specific categories which cannot be included in the "Comprehensive" form. Readers should find his check list of the types of insurance that should be carried of considerable help, especially those accountants who have to act more and more as business advisers to their clients.

Mr. Proverbs is a principal partner

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of Reed, Shaw and McNaught, insurance brokers. He became associated with the firm in 1931 and from 1939 to 1954 was an associate partner. While he is naturally interested in all phases of insurance, his particular field is power-plant insurance and third-party risks.

A. M. HILL (page 46)

In buying a machine close attention must be given to ensure that it meets the most exacting requirements of the job it has to do. By the same token, writes Alex M. Hill in "Techniques of Personnel Evaluation", personnel selection must be made with equal care and "the difference between a successful or unsuccessful manager can often be measured in thousands and even millions of dollars". The author goes on to show the importance of using the best means available for evaluating candidates for managerial or other key positions and describes two of the most widely used techniques which have provided a sound basis for making selection decisions.

Mr. Hill, a consultant with Urwick, Currie Limited, is a member of the Personnel Association of Toronto and the Association of Professional Engineers of Ontario. From 1947 to 1956, he was with Canadian General Electric Company, working first as personnel supervisor of one of the company's Toronto plants, then as manager in charge of personnel for the firm's four lamp manufacturing plants employing some 2,000 workers. His experience included a year-long special assignment of psychological testing, performance review and evaluation of 700 management personnel from the company's entire manufacturing units.

EDITORIAL (page 15)

Business men increasingly want advice on financial matters. What is more natural than that they should turn to their auditor for this advice? G. Finlay Davis who writes this month's editorial "The Auditor as a Systems Adviser" has been studying the accountant's role in management for a number of years. In 1957 he was appointed regional director, management advisory services in the Toronto offices of Price Waterhouse & Company. Before that he was director of management services of the Hydro-Electric Power Commission of Ontario. This puts him in a position to comment convincingly on the important part that management accounting should play in the life of the auditor.

The author is a member of the Institute of Chartered Accountants of Ontario and past president and honorary life member, Systems and Procedures Association, Toronto chapter. He is also a past director of NOMA (Toronto Chapter) and first president of the Computing and Data Processing Society of Canada.

Forthcoming Features

Personnel Administration

Legal Responsibilities of Corporate Directors

American Approach to Management Services

Valuation of a Minority Interest

Helping Small Business with the Budget

NOTES AND COMMENTS

C.I.C.A. News

The Executive and Council of the Canadian Institute of Chartered Accountants met at The Briars, Lake Simcoe, from May 30 to June 2 to receive committee reports and consider Institute matters. Chairman of the meeting was J. L. Helliwell, C.I.C.A. president.

Annual Conferences

The location of forthcoming annual conferences was reviewed. At the request of the four Atlantic provinces it was decided to hold the 1962 conference in Halifax. The schedule of future conference locations is as follows:

1959 – Vancouver
1960 – Banff
1961 – Toronto
1962 – Halifax

Founders' Memorial Gift

Council accepted with gratitude a bequest in excess of $10,000 from the estate of the late John F. Helliwell, one of the founders of the Canadian Institute. The income from the legacy is to be used for prizes in the annual uniform examinations, and a committee consisting of the second vice-president, treasurer and executive secretary has been set up to make recommendations on its allocation.

Committee Chairmen

The following were appointed C.I.C.A. committee chairmen for 1959-60:

Accounting and Auditing Research: H. I. Ross, Montreal.

Taxation: J. P. Kinghorn, Montreal.

Magazine and Publications: H. S. Moffet, Montreal.

Annual Conference: F. T. Denis, Montreal.

Cooperation with Other Accounting Bodies: W. J. Macdonald, Winnipeg.

Public Relations: C. E. Winters, Toronto.

The 1960 chairman of the Committee on Education and Examinations will be I. H. Bell, Vancouver.

At the meeting Council established a Special Committee on Continuing Education, of which the chairman is yet to be appointed.

Research Bulletins Planned

At its meeting on May 21 and 22 the C.I.C.A. Committee on Accounting and Auditing Research gave approval to the preparation of a bulletin on expanding the standard form of the auditor's report to include a reference to conformity with generally accepted accounting principles and consistency in their application. The committee also plans to publish a bulletin on qualifications in the auditor's report. It is intended that both bulletins will be issued to members before the end of 1959.

1959 Conference Material

The draft program with registration and reservation forms for the 1959 annual conference of the Canadian Institute has been mailed to all members. Those planning to attend

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the conference, which will be held at the Hotel Vancouver from September 13 to 16, are reminded to make their reservations as soon as possible.

Film Nears Completion

The film on the profession of chartered accountancy presently being produced for the Canadian Institute by Crawley Films Limited, Ottawa, will be given its premiere showing at the 1959 annual conference in Vancouver.

Systems Meeting

More than 1200 members and guests of the Systems and Procedures Association are expected to attend the 1959 International Systems Meeting at the Royal York Hotel, Toronto, on October 12, 13 and 14.

The program will be divided into three study areas: systems panorama, seminars and systems futurama. Systems panorama will include an introduction to the systems function, forms design and control, work simplification concept and program, procedure charting and analysis. The seminars will cover work measurement, operations research, data processing methods, communications, clerical quality control and human relations. Systems futurama will look into the future of electronic data processing based on the experiences of organizations recognized as leaders in the field.

General chairman of the meeting is G. K. MacDonell, systems supervisor for the Bank of Nova Scotia. G. F. Davis, C.A. and D. B. Morin, C.A. are members of the executive committee assisting him.

Personnel Association

The date of the fall conference of the Personnel Association of Toronto, Inc. has been set for Thursday, November 19. The spring conference will be held on April 28 and 29, 1960.

In the News

J. R. Henderson, C.A. (Alta.), was a Canadian delegate to the first meeting of the Atlantic Congress, sponsored by NATO, in London from June 5 to 9.

W. H. Campbell, C.A. (Que.), a past president of the Quebec Institute, has been awarded an honorary degree of Doctor of Civil Law by Bishop's University, Lennoxville, Que.

Month End Rates of Exchange

Members are now being provided in this column with the nominal rates of foreign currencies as at the close of business on the last trading day of each month. We feel that this service should be an extremely practical one for accountants required to express foreign currency amounts in terms of Canadian funds for income tax and other purposes.

CURRENCY EXCHANGE RATES

The following nominal rates of exchange are supplied by The Canadian Bank of Commerce, International Department, Head Office, Toronto, as at 4 p.m., May 29:

Australia (pound) 2.17⅜; Belgium (franc) .0194; Denmark (kroner) .1405; France (franc) .00197; Germany (d. mark) .2310; India (rupee) .2036; Italy (lira) .00155; Mexico (peso) .0775; Netherlands (guilder) .2555; New Zealand (pound) 2.70⅝; Norway (kroner) .1360; Sweden (kronor) .1865; Switzerland (franc) .2235; Union of South Africa (pound) 2.71⅜; Sterling in Canada, 2.70-2.71; Sterling in New York, 2.81 - 2.81⅛; U.S. dollars in Canada, 3⅞ - 3⅝ discount.

Editorial

THE AUDITOR AS A SYSTEMS ADVISER

THE CONCEPT of the auditor as a professional business adviser is thought by some to be a new one. Nothing could be further from the truth. The origin of accountancy as a profession is closely linked to the rendering of many types of business and financial advice to clients. There are many recorded instances in accounting literature of auditors having been responsible for the design and installation of cost and other accounting systems more than 50 years ago. What appears to be new is, in fact, merely the auditor's traditional practice of keeping abreast of the times and responsive to the needs of his clientele. Because of the very rapid growth in the size of business enterprises in recent years there has been a recognition on the part of many practising accountants that to maintain the role of independent business adviser, as well as auditor, it is necessary to become ever more specialized, particularly in the field of systems and methods.

Many practising accountants will agree that their main interest is with the profit and loss statement, the balance sheet and the income tax position of their clients. Conversely, many industrial accountants will state that, although they are interested in the financial statements certified by the public accountant, their time and attention is devoted chiefly to the information required by operating personnel to control the business. The auditor who has been able to go beyond the audit requirements of his client and recommend improvements in the operating control system is indeed fortunate because such activities lead to a full appreciation of the whole enterprise. However, there are probably still many auditors who, because of inclination, lack of time, or client attitude, restrict themselves to audit verification and do not concern themselves with better methods of inventory management, performance measurement, or cost control.

As the size of business has grown, so have the complexities of administrative accounting. New accounting techniques have been developed within industry and therefore new techniques and skills have had to be learned and developed by those who are required to

give advice to management. The systems adviser has found it necessary to be competent in many new techniques such as the use of electronics for information processing, or the application of advanced mathematics for the solution of business problems. He must be capable of creative thinking as the client seeking advice is usually looking for something more than comments on the defects in his present system: he is looking for new ideas or new methods that will keep him ahead of his competitor.

It does not seem to be a question of whether or not the auditor should be a systems adviser. He is one because the business public expects him to be and there seems little likelihood that he can withdraw from it at this late date. Fortunately, one can expect a professional man to draw the line between what he is competent to do and what he cannot do, and there is no reason to believe that the accountant cannot work in harmony with others, such as engineers, mathematicians and psychologists. Many talents, in addition to accounting, may be needed if the practising auditor is to give the most useful advice to his client's management.

If the horizons before us are not new, at least they are far-reaching and fascinating. More and more the professional auditor will be asked to give competent advice in the fields of administrative practice as well as in the fields of auditing and financial management. Some accountants in practice will tend to develop into specialists in administration. The auditing practitioner without such specialists in his firm will tend to consult others for specialist advice, a practice that is common in other professions.

Business is demanding more and better service from its accountants and information processors. The auditor will have to keep step with these demands, both as an auditor and as an adviser in better methods. If the past is any indication of the future, the auditor will be equal to the task and continue to be the best outside source of advice that business management can obtain in the areas of auditing, financial management and administrative practices.

Organizing for Effective Management

RONALD O. MOORE, C.A.

SINCE THE TURN of the century, and particularly in the last two or three decades, management's job has become increasingly complicated. The developments that have led to this situation include a growth in regulatory powers exercised by various levels of government, the emergence of strong labour unions as a potent force in the economy, technological improvements, and changes in merchandising and production methods, to mention but a few.

To add to the confusion, most companies have been expanding at an extremely rapid rate, with mergers and outright purchases accelerating this natural growth. The result has been an increasing number of organizational headaches for those in management positions.

In order to deal with these increasing complexities of business life, the organization of the management function itself has undergone a marked change during this period. Gone is the authoritarian one-man control, based on the traditional military concept of unquestioning obedience from subordinates and typified by financial and industrial giants like Ford, Rockefeller and Carnegie. In its place has emerged an almost professional management class surrounded by staff specialists.

With the rapid changes that have taken place during this period, and with the prospect of equally as great changes ahead, management has found it necessary to delegate as much detail work and as many decisions to lower levels of supervision as possible. This was the only way that management could find time for the planning and coordinating functions that are now recognized as being amongst the most important that it can perform.

In order to carry out these functions effectively, management has found it necessary to pay an increasing amount of attention to the organization structure by means of which its plans and policies are being translated into action. In other words, recognition is being given to the fact that a sound plan of organization is the best vehicle for carrying out the objectives and plans of a company and for controlling the course that it follows.

Organization Principles

There are at least a dozen basic organization principles that form the foundation stones of any sound plan of organization, and many variations of these principles. Most of the im-

portant ones can be found in the following generally accepted attributes of such a plan:

1. A logical grouping of functions, with the best compromise possible between the necessity for keeping both the span of control and the number of levels of authority down to a reasonable size.
2. Clear cut lines of authority and communication.
3. Clearly defined responsibilities, preferably in writing, accompanied by commensurate authority.
4. The maximum amount of delegation of responsibility permitted by the capabilities of the personnel involved, so as to bring the decision-making function as close as possible to the point at which the action is to take place.
5. An effective means, for everyone in a position of responsibility, of coordinating, directing and controlling the operations under his jurisdiction.
6. Adequate provision for planning and policy making at senior management levels.
7. An intelligent use of committees, staff assistants and other management aids.

Types of Organization Structure

Most companies go through many stages in their organizational development, and it is management's job to decide on the proper form of organization at each stage and when it is time to pass on to the next stage. Actually there are only two basic forms of organization structure, although there are many variations of these basic forms.

The most common form, and the one in which practically all companies start out, is the functional organization, in which each major function is headed by a senior executive who reports to a chief executive. The other basic form is the divisionalized organization in which a company is divided into divisions according to products or according to geographical areas.

Care must be taken not to confuse divisionalization with decentralization. A company may be completely divisionalized but still be organized on a centralized basis if all decisions of any importance are made by head office. The degree of decentralization that a company can be said to have accomplished varies in direct proportion to the degree of decision-making powers that have been delegated to the administrative units of the organization. It is true, however, that a divisionalized organization structure is probably the best means of carrying out an effective program of decentralization, and the two usually go hand in hand.

One of the most important questions facing many managements today is when to divisionalize. At what point do the advantages of the divisionalized structure, with its tendency towards decentralization of authority, outweigh the advantages of the functional structure, with its tendency towards highly centralized authority? What are the indications that it is time for a change?

The first step in solving this problem is to weigh the relative advantages of each type of structure in terms of the characteristics of the company, the business that it is in and the personnel that it has.

A functional organization structure has these advantages:

1. It takes the greatest advantage of the special skills or administrative abilities of an outstanding leader,

if such a person is heading up the company. His influence will be felt on all functions, since they all report to him, and he is strategically placed to coordinate and make decisions affecting one or more of these functions.

2. It is normally more economical to operate because it makes the most effective use of specialized staffs and facilities. It avoids the duplication of staff and administrative personnel that often accompanies divisionalization.
3. It facilitates coordination within each function because one man heads up each kind of work. Where bits and pieces of the function are administered by different divisional managers, it is difficult to ensure that the same policy will be followed by all units.

These factors work to greatest advantage when a company is small. It can be readily seen that, as a company grows, conditions that worked to its advantage when it was small tend to work in the opposite direction as it expands. The outstanding leader's energies and talents are so dissipated and so many levels of authority arise that decisions are unduly delayed and communications bog down.

Where, then, is the dividing line? As might be expected, the answer to this question will vary with each company. There are, however, a couple of indicators to show that it is time to give consideration to such a move. These include the expansion of the product range or geographical territory covered to a point beyond the ability of a functionally organized management to cope with it and an excessive slowing down of communications and the decision-making process.

Decentralization

Closely allied to this question of divisionalization is the equally knotty problem of whether to decentralize and, if so, when. The conditions that indicate the need for divisionalization are the same as those that point up the need to decentralize.

The disadvantages of decentralization have already been mentioned briefly in pointing out the advantages of the functional organization structure. A decentralized organization requires more individuals of management calibre, runs the risk of duplicating specialized personnel and equipment and creates a problem with respect to standardizing the interpretation and application of company policies in each of the decentralized units.

However, there is a point in every company's growth when these disadvantages are more than offset by the advantages of decentralization. This is particularly true if a company diversifies its product lines or disperses its production facilities as it expands. Under these conditions, a centralized management finds it increasingly difficult to cope with the myriad decisions that must be made and to give the required time to each of the various product lines or geographical areas. Management invariably finds it necessary to delegate some of its powers and the process of decentralization has begun.

Degrees of decentralization vary with the size and complexity of a company and the philosophy of its management. Decentralization can take place in only one function as in the case of a company with a wide variety of products manufactured in one plant. Where groups of these products are marketed through different channels and each requires its own

sales force, market research, advertising, etc., the company may find it advantageous to decentralize its sales function by appointing product managers to be in charge of each group, without decentralizing its production or financial functions. Normally, however, a company will divisionalize and decentralize at the same time. At this point the company can expect to derive some of the benefits usually associated with such a move. Initiative and leadership qualities will be developed in the managers of the decentralized units, or their lack will be revealed. Employees of these units will develop a better *esprit de corps* as they lose that feeling of being a small cog in a gigantic machine. Where the program of decentralization has involved the establishing of plants in various communities, the company may lose its dependence on one labour market, may gain new sources of supply and will undoubtedly benefit from lower land costs, lower taxes and lower wage rates.

Decentralization also makes it easier to determine and control the profitability of different product lines or different territories. It enables companies to vary their products or policies to meet the needs or peculiarities of local markets. This is particularly true of chain stores, financial institutions, etc.

If a company is to get the most out of a program of decentralization, as many operating decisions as possible must be delegated to the management of the decentralized units. Top management should retain primary responsibility, however, for establishing the objectives and policies of the company, its long-range plans, and the standards required to assess and control the operations of the decentralized units. Overall coordination of these units and approval of the programs and budgets prepared by the divisional managers would also remain centralized.

Committees

As a company decentralizes and greater autonomy is granted to its divisions, there is a tendency for the personnel in staff positions at the divisional level to lose touch with their functional counterparts in other divisions, as well as at the next senior level of the organization. Thus, policies may be interpreted differently and information may not be exchanged as readily as it was before decentralization.

One of the ways in which this problem can be overcome is through the use of committees. While their use is becoming more and more common, there is no doubt that many companies have set up committees without being fully aware of their potential drawbacks as well as their potential contribution. The extent of this contribution depends on the way in which committees are used as well as the degree to which certain basic principles are followed in establishing them. A few of the more important of these principles are as follows:

1. The purpose for which the committee is being set up and the function that it is expected to carry out should be defined very clearly for the benefit of its members.
2. The work and potential contribution of the committee should justify its cost. Many managements do not realize how much time the committee members (who are normally fairly senior personnel) spend on committee business, not only at the meetings but also in

preparing for them, travelling to and fro, and following up on matters raised at these meetings.

3. The only subjects that should be dealt with by committees are those that can be handled better by groups than by individuals.
4. The members of the committee should be selected in such a way that each can make a contribution to the work of the committee as a whole.
5. The size of the committee should be established as the most reasonable compromise between the need for representation of the various functions with which the work of the committee will be concerned and the unwieldiness of too large a committee.
6. So that a committee can be held accountable for its actions, it should report to an individual who is in a position of authority with respect to as many of the members as possible.

There is no doubt that committees have a place in the management organization structure as evidenced by the fact that almost every company of any size has at least one committee and some companies have a great many of them. Before a company establishes too many committees, however, it would do well to weigh the pros and cons of using committees for coordination, communication and, in some cases, decision-making purposes. This latter trend is particularly noticeable in areas such as new product development and salary administration.

Some of the principal advantages usually associated with the use of committees are:

1. Bringing to bear on a problem the pooled judgment of individuals experienced in different phases of a company's operations.
2. The fact that more angles are explored and more factors are considered than would be the case if the problem was dealt with by only one individual.
3. The stimulating and broadening effect of exchanging ideas and viewpoints on a subject.
4. The contribution that a committee can make in determining what part each of its members shall take in a predetermined course of action, so as to avoid duplication of effort or working at cross purposes.
5. The part that a committee can play in training younger executives and in giving top management a chance to observe them in action.

As against these and other advantages, there are also a number of disadvantages, the more important of which are listed below:

1. The cost of the committee in terms of the members' time.
2. Responsibility for a decision or recommendation may be spread so thinly that no member of the committees gives as serious consideration to a problem as he would if its solution rested on his shoulders alone.
3. Committees are notoriously slow in coming to grips with a really tough problem and finding a solution.
4. A committee may be completely dominated by its chairman or a clique within the committee, in which case the time of the other members is a complete loss.

Thus, it would seem that there is no easy answer to the question of when and where a committee should be used. Its chances for success, however, appear to be greatly enhanced

if management takes the trouble to make sure that the committee is properly established and deals only with those types of problems that lend themselves to a committee form of solution.

Line and Staff Positions

One of the knottiest organizational problems faced by management is the establishing of a workable and harmonious relationship between line and staff positions in a company. This problem is particularly acute in a decentralized organization where a divisional manager may have under him the divisional counterparts of certain senior staff positions at head office.

Line and staff positions are not easy to define, because many positions have elements of both line and staff in them. Thus, a manager of a staff department has a line relationship to the personnel in his department and a staff relationship to the manager of a line department. In essence, though, we could say that line refers to the functions, and the personnel carrying out the functions, that are basic to the accomplishments of a company's primary objectives. In a manufacturing company, for example, these normally would be sales and production. Staff, then, refers to those functions and personnel that are responsible for providing advice and service to the line personnel.

It is often true that personnel in staff positions become so knowledgeable in their particular fields that their recommendations have almost the force of decisions. However, the line manager to whom that recommendation is made still has the right to refuse to accept it unless instructed to do so by his line supervisor. This situation can be particularly hard to deal with in decentralized companies. For example, a personnel manager at head office may be responsible for coordinating and standardizing the policies, forms and procedures of the personnel departments of the decentralized divisions of the company. To this end he may visit or call meetings of the personnel supervisors of these divisions. However, if a divisional manager believes that a certain procedure would be detrimental to the interests of his particular division, he should be at liberty to challenge that procedure. It is quite possible that if he does resist the implementation of the procedure developed by the personnel manager, the matter will be referred to their joint superior, who will have to make a decision. If he decides in favour of the personnel manager, the fact remains that the divisional manager is now receiving his instructions from his line superior, not from the personnel manager.

Management's Task

It can be seen from the foregoing very limited discussion of organizational principles and problems, that management's primary task in this area is to define and clarify the responsibility and authority of each position in the organization and its relationship to other positions, so that the objectives of the organization will be carried out in the most effective possible manner.

However, while it is management's function to formalize the lines of communication and authority within a company, management must recognize, at the same time, that informal relationships will and should exist. These will not be sanctioned by organization charts or job descriptions but will be based on personalities of

individuals and their personal likes and dislikes. Attempts to stamp out these informal lines of communication will seldom succeed. Meetings, discussions, agreements and even decisions (if within their authority) of individuals in various departments must be condoned, even when carried out without the knowledge of their superiors, as long as the superiors are kept informed of the results. An organization structure, no matter how theoretically sound, is not a straightjacket. It is a framework into which people must be fitted and, since no two individuals are ever identical, in many cases the framework has to be bent slightly to take into account the strengths and weaknesses of the personnel concerned.

In this same connection it should be kept in mind that a major organizational change cannot be implemented overnight. It is a gradual process involving a considerable amount of planning, preparation and training of personnel. Many companies prepare more than one plan of organization, particularly if they are contemplating a major organizational change such as decentralization. First of all, they prepare what might be called an "ideal" plan of organization, which represents the most logical grouping of functions and the proper span of control. They then adjust the ideal plan to take into account the capabilities of the personnel that are available to fill the various positions. The ideal plan is kept as a target towards which the company works in its recruitment and training programs.

Organizational problems will always be with us. However, their severity can be greatly diminished by the observance of a few commonsense principles and the careful weighing of the pros and cons of the alternative forms that an organization structure can take and the various methods by which management can coordinate and control its components.

Developing a Style

The elements of prose style can be developed, as everyone can testify of his own experience. We can learn to use proper words in proper places. We can learn to use right phrases in the right way.

A. J. Cronin, author of "Keys of the Kingdom", "The Citadel" and many other works, had no knowledge of style or form, no idea of technique, when he started his first novel. He found it difficult to express himself. He struggled for hours over a paragraph. "A sudden desolation struck me like an avalanche," he writes of this period. "I decided to abandon the whole thing." Cronin threw away his manuscript, and then, shamed by a Scottish crofter, he dug his papers out of the ash can, dried them in the oven, and went doggedly to work. In three months of what he calls "ferocious effort" he finished his novel "Hatter's Castle", of which millions of copies were sold.

— *The Royal Bank of Canada Monthly Letter,* March 1959

Source and Application of Retained Earnings

JAMES W. VAIR, C.A.

'Indeed the Idols I have loved so long
Have done my credit in this World much wrong . . .'

THE CONNECTION between the *Rubaiyat* and an accounting subject may seem remote, but the lines quoted summarize rather aptly the doubts expressed in recent years by a number of accountants concerning the adequacy of traditional methods of income measurement. Conventional accounting principles, it is suggested, are producing obsolete responses to the challenges offered by the dynamic economy in which we live. This question provoked much debate in 1952, attributable in part to events such as the appearance of Bulletin XV of the Institute of Chartered Accountants in England and Wales in May of that year entitled "Accounting in Relation to Changes in the Purchasing Power of Money", and the papers presented at the 6th International Congress of Accountants. The subject has once more attracted widespread interest following the discussion on "Ascertainment of Profit in Business" which occupied one of the sessions at the 7th International Congress held in Amsterdam in September, 1957.

What advantages accrue from recording replacement values in the accounts which historical costs fail to supply? If the arguments of the replacement value school are examined, it is generally found that inventories and fixed assets are cited most often as examples where accounting on an historic basis fails to produce a proper matching of costs with revenues. With regard to inventories, it can be said that the adoption of some variant of the *base stock* or *Lifo* methods provides a satisfactory solution when the problem of matching current material costs with current sales is considered to be acute, and the results are not too different from those which would occur if pure replacement values were used for raw materials. No such facile compromise is available, however, in the case of fixed assets. Factors such as imperfections in the market for such products, lack of homogeneity of plants in the same industry, and so on, make the application of replacement value theory to fixed assets, on a basis which would result in any degree of comparability

between firms, a task equal to that of Sisyphus.[1]

One of the main arguments in support of depreciation based on replacement values leans heavily on the premise that allowances calculated in this manner will enable the business to retain the funds necessary to finance the productive process in continuity. Changes in the price level undoubtedly create a problem with regard to the financing of fixed asset replacements, but it is to be hoped that no accountant still believes that the way to increase working capital, and hence provide more funds for such replacements, is to increase allowances for depreciation.[2]

There is considerable merit in the suggestion that reported profits should represent the net disposable income for a given period, or the income which may be distributed without impairing productive capacity. But the attempt to marry accounting income to economic income is not an unqualified success when it involves writing up the book values of fixed assets held, or adjusting current allowances for depreciation on the basis of an index which supposedly reflects the trend in the real price of such assets. In the absence of a government edict which would impose a uniformity of treatment upon all business concerns, it is extremely doubtful that any practical interpretation of replacement value theory could be introduced into an accounting system which would not be subject to arbitrary management manipulation.

In support of the two proposals mentioned above, it is often argued that calculating depreciation allowances on the basis of historic costs results in an income statement in which various components are stated in dollars of different value. But is this really in accord with the facts? The residual figure of net profit cannot be stated on any other basis than in terms of the current dollar provided there has been no appropriation to a revaluation account or similar price adjustment reserve in the income statement. The analogy which some accountants attempt to draw between this problem and the conversion of assets stated in a foreign currency is too far-fetched to warrant discussion, while the suggestion that the allowances for depreciation are not stated in current dollars because they are lower than would be the case if the fixed assets in question had been acquired in more recent times is simply a *non sequitur*. What the argument implies, although it is seldom clearly stated, is that income which may have to be ploughed back into fixed asset replacements almost immediately is being displayed as an amount available for distribution. This, of course, is legally true, however imprudent such a step might be. Yet these so-called "inflated profits" are a two-sided coin, and if they do not attract new investment into the business with which to finance current plant replacements, is there any cause for lamentation because a portion of such profits must be invested in fixed assets? One suspects that complaints regarding conventional bases for calculating depreciation are in reality only symptoms of dissatis-

[1] A greedy king of Corinth condemned in Tartarus to roll uphill a large stone which constantly fell back again.

[2] See "The Current Depreciation Mirage" by John N. Myer, *CCA* June 1949, for a clear exposition of the fallacy of this argument.

faction with the current formula for computing taxable income.

No one will argue with the suggestion that it is unwise to exhibit undistributed profits which cannot be paid out in dividends, which are not available to meet possible demands for unrealistic contributions to pension plans or exorbitant wage increases, which, more precisely, are not something over and above what is required to maintain the continuity of the business. Accordingly, it is certainly the height of wisdom to describe the surplus account, as is becoming increasingly popular, by some terminology such as "earnings retained and invested in the business".

Fund Accounting Theory

Towards the end of World War II, it became the practice to segregate that part of earned surplus which was represented by the refundable portion of excess profits tax and classify it as "deferred surplus". There is surely as much reason for segregating the portion of retained earnings which has been invested in fixed assets. At this point, we must concede that the fund accounting advocated by James R. Neff would disclose this situation automatically.[3]

Although the mechanics of pure fund accounting may not appeal to most accountants when dealing with the average commercial concern (in which income is envisaged as the return resulting from all activities of the business on the total economic capital employed),[4] greater clarity is certainly possible in disclosing in the appropriate statements the source and investment of funds, having regard to amounts which may reasonably be attributed to capital sources and amounts which may arise from earnings.

The application of this theory is best explained by an example. Let us consider a hypothetical concern, *The Progressive Company Limited,* a corporation in the medium-size range which has always lived within its means to the extent that fixed asset replacements have been financed in the past out of capital, borrowed or equity. However, in a recent year, 19–2, the unfortunate day arrives when this chaste policy is abandoned, and amounts well in excess of available capital funds and the current year's allowance for depreciation are applied to acquire substantial additions to plant.

The orthodox financial statements covering this situation might be drawn up as shown opposite.

It requires only slight amendments to these statements to indicate that earnings have been "frozen" in fixed assets. There is a primordial instinct in ordinary people (whom sophisticated accountants are pleased to call "laymen") which tells them there should be an increase in funds equivalent to profits earned. The fact that this intuition often proves false is all the more reason why accounting reports should disclose the causes of the apparent non-liquidity of profits.

The revised presentation would be as shown on page 28.

[3] "The Basic Principles of Fund Accounting" and "Balancing the Unbalanced Sheet Funds", *CCA*, July 1950 and April 1951.

[4] See W. A. Paton, "Accountants' Handbook", 3rd ed., pp. 109-110.

THE PROGRESSIVE COMPANY LIMITED

CONDENSED SUMMARY OF FINANCIAL POSITION

	December 31, 19-2	December 31, 19-1	Variation
Working capital	$ 162,000	$ 317,500	($155,500)
Fixed assets (net after deducting accumulated depreciation)	1,210,000	940,000	270,000
	1,372,000	1,257,500	114,500
Less: Bonds payable	365,000	375,500	10,500
Shareholders' equity	1,007,000	882,000	125,000
Represented by:			
Capital stock	700,000	700,000	
Earned surplus	307,000	182,000	

STATEMENT OF EARNED SURPLUS

Year ended December 31, 19-2

Earned surplus, December 31, 19-1	$182,000
Net income for year	160,000
	342,000
Dividends paid	35,000
Earned surplus, December 31, 19-2	$307,000

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 19-2

Funds applied:		
Additions to fixed assets	$375,000	
Bond principal instalments	10,500	
Dividends paid	35,000	$420,500
Funds made available:		
Net income for year	160,000	
Add Allowance for depreciation which does not involve an outlay of funds	105,000	265,000
Resulting decrease in working capital		$155,500

THE PROGRESSIVE COMPANY LIMITED

STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

Year ended December 31, 19-2

Balance of retained earnings, December 31, 19-2		$182,000
Add: Net income for year		160,000
		342,000
Deduct:		
Dividends paid	35,000	
Transferred to account re earnings invested in fixed assets	145,000	180,000
Balance of retained earnings invested in current assets, December 31, 19-2		$162,000

On the balance sheet would appear:

Balance of retained earnings:		
Invested in fixed assets	$145,000	
Invested in current assets	162,000	$307,000

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 19-2

	Retained Earnings	*Capital*	*Total*
Net current assets, December 31, 19-1	$182,000	$135,000*	$317,500
Add: Net income for year	160,000		160,000
Recovered through allowance for depreciation		105,000	105,000
	342,000	240,500	582,500
Deduct:			
Reduction of funded indebtedness used to finance fixed assets acquired in prior years		10,500	10,500
Additions to fixed assets, this year	145,000	230,000	375,000
Dividends paid	35,000		35,000
	180,000	240,500	420,500
Net current assets, December 31, 19-2	162,000	–	162,000

*This represents the excess of working capital over the balance of retained earnings, or stated another way, the excess of capital contributed over the amount invested in fixed assets – i.e.,

Funds provided by capital stock		$700,000
Invested in fixed assets	940,000	
Less: Financed by issue of bonds	375,000	565,000
Liquid capital funds on hand		135,000

It is axiomatic, of course, that if working capital increased in succeeding years, transfers back to retained earnings account invested in current assets would be appropriate up to the point where net current assets equalled the total balance of retained earnings. But the question may be asked: Is it correct to assume that capital funds are always invested in assets in inverse order of liquidity? Or, conversely, are undistributed earnings always retained in liquid form as long as possible? The answer is incapable of proof unless the principles of fund accounting are an integral part of the bookkeeping system, and is perhaps of academic interest only in most cases. In a public company, shareholders, trade union members and other parties interested in the amounts available for distribution would probably reject any appropriation of earnings to plant or other long-term assets if capital funds were apparently available for this purpose. The significant point of disclosure is that, when funds in excess of the amounts provided by equity or borrowed capital are applied to plant or other non-current assets, it should be clearly shown that retained earnings have been impinged upon to this extent.

Conclusion

For the benefit of those who prefer to have the verdict summarized, it may be stated that the following are the conclusions implicit in this brief essay:

1. The similarity between economic conditions in Europe and North America is not so absolute as to make replacement value theory on this continent and at this time an appropriate substitute for existing accounting principles based on historical cost.
2. Granted that a new definition of income is not necessary at present, it is nevertheless desirable that attention be drawn to those factors which may impose practical limitations on the distribution of retained earnings. Accordingly, when funds represented by retained earnings are invested in long-term assets, disclosure of this fact in the equity section of the balance sheet, and segregation of funds as between capital and retained earnings in the funds statement, results in a more informative financial statement.

As accountants, we have no cause to admit that we have "drowned our glory in a shallow cup", to paraphrase the third line of the stanza of the *Rubaiyat* which prefaces this discussion. What is often presented as a problem involving basic accounting principles may, upon analysis, prove to be merely a disclosure within the framework of existing conventions.

Valuation of an Insurance Agency

DONALD B. GARFAT

BROADLY SPEAKING, commercial enterprise falls into two classes. One might be described as industrial or commercial businesses involving manufacturing operations, inventories and physical assets. The other, dealing primarily in services, includes the professions of accountancy, law and medicine, and such businesses as insurance and advertising. The insurance business, being purely of a service nature, involves assets that are largely intangible; accordingly, those in it are very much concerned with the element of goodwill.

Certain essential features should be considered in every insurance agency sale or purchase. These are:

1. Agreed consideration.
2. Procedure for paying any deferred consideration.
3. Transfer of goodwill.
4. Agreement by the seller not to compete with the buyer.
5. Consent of insurance companies.

Agreed Consideration

The sale of an insurance agency may be for cash, for an agreed percentage of commissions on the business for a stipulated period or, most frequently, for both. Many different formulae have been used, depending entirely upon the particular situation involved.

Income tax is an important consideration in arranging the terms of purchase. For tax purposes a lump sum payment for an agency would likely be regarded as a capital item for both the vendor and the purchaser while a deferred payment of a percentage of future commissions over a period of years is by nature an income item.

As there is no firmly established formula, generally speaking it might be said that in the case of a cash purchase a sum equal to one or one and one-half times the annual commission from the agency would be paid. Where a certain percentage is paid in cash and the balance over a term of five to six years, the total payable might be as much as two and one-half times or possibly more, spread out over that period of time.

Where the agent sells his business and then continues to handle it on behalf of the purchaser, it is usually possible to make an arrangement whereby, in the event of the vendor's early death, some provision would be made for continuing payments to his widow or estate.

Naturally, the purchase of an agency where the purchaser is assured that the business will be continued with him is much more valuable and worth a bigger investment

than one where there is a considerable degree of uncertainty. Of course, the vendor is eager to procure as much as possible for his business. Just as naturally, the purchaser hopes to effect an excellent investment. It will be apparent then that where the vendor accepts cash in full for his business the purchaser must be very thorough in the steps that he takes in order to assure himself of the continuity of the business.

The usual first step in this type of transaction is to investigate the files of the business being purchased and segregate them into large, medium, personal and small accounts. If the general class of business appears attractive, an effort should be made to secure assurance from some of the larger and medium-sized accounts that their business might be continued with the proposed purchaser. Providing the answers are satisfactory, the vendor could arrange to mail letters to all his clients advising them of the sale of the business. He might indicate that he or his estate will have a continuing financial and personal interest and solicit the patronage of his clients on behalf of the purchaser. However, for various reasons, some business will necessarily be lost to the eventual purchaser.

Procedure for Paying Deferred Consideration

Where the business is to be paid for over a long period of time, say, five or six years, either on a percentage of commission basis only, or on a partly cash and the balance commission basis, and where the purchaser will still exercise great care, he nevertheless can proceed to act, at least to some extent, on the basis that if certain accounts are lost, then he will not be required to pay commissions on the business lost over the period of time agreed upon. This arrangement somewhat limits the inherent risk involved.

Transfer of Goodwill

One of the most important factors in assessing the value of a general insurance business for purchase purposes is the element of goodwill. This goodwill, naturally, can determine, to a large degree, whether or not the business being purchased will remain with the purchaser.

Goodwill, or the privilege granted by the seller to the purchaser of trading as his recognized successor, involves more than the transfer of files noting expiration dates, amounts of coverage, etc. It concerns the entire reputation of the insurance business entity being sold. To be assured of the ethical behaviour of the seller the purchaser might obtain useful and reliable knowledge of his proposed purchase from insurance field men or trade associations. These people would quite likely base their knowledge upon their familiarity with local conditions and practices as well as with the proposed seller.

In the purchase of an insurance agency, an agreement should be made to the effect that the seller will remain out of the insurance business in a particular geographical area for a certain period of time. If the seller is a corporation or limited company it would be necessary to word this agreement so that it would also apply to certain individual partners, officers, or stockholders of the corporation. The services of an attorney are essential in this connection, and certainly should be consulted.

Consent of Insurance Companies

The consent of insurance companies, where unpaid balances are involved, certainly is of considerable importance. All past due balances should have been paid to the various insurance companies represented by the seller. Unless the companies are paid in full, there might be considerable doubt as to whether the business can be sold without consent of the interested companies.

Conclusion

In conclusion a few further suggestions may be appropriate:

It might be well to consider the overall compatibility of the agency to be purchased and the purchasing agency. This consists of such factors as the geographical location of some of the principal or most worthwhile accounts, also the ages of the principal parties controlling the most important accounts, relative to the ages of the staff or owners of the purchasing agency.

It is often advantageous if the insurance companies represented by the agency being purchased are also considered. Care should be taken to make certain that any company not represented by the new owners is agreeable to accepting renewals or new business from them. In some cases individuals who have had their insurance placed with certain companies for long periods of time have a definite reluctance to being switched to another company.

It is hoped that the foregoing will provide at least some small degree of guidance to both vendors and purchasers of general insurance businesses.

Change in the Value of Money

The fall in the value of money has occasioned a great deal of critical discussion amongst accountants over the past 20 years or so . . . [It is] important to recognize the basic economic philosophy underlying the controversy. Whatever the views of the several writers and speakers may be on the matter – whether they advocate the use of index numbers as correctives to financial statements, or the incorporation of current costs in the books of account, or the use of replacement costs, or transfers to reserves to meet anticipated replacement burdens, or any other of the suggested remedies or palliatives – one point common to them all stands out. It is generally recognized that an accounting problem exists because of the change in the value of money; that it is, moreover, a problem of social significance, and that upon its solution a not inconsiderable part of the welfare of our society depends.

– L. Goldberg, to the Australian Society of Accountants, May, 1958.

The Administration Executive

JAMES J. MACDONELL, F.C.A.

THE TYPICAL organization structure of an average business divides itself very broadly into three basic areas of activity:

1. Selling
2. Making or buying
3. Administering.

In more standard terminology, in a manufacturing company these functions are known as "the marketing group, the manufacturing group and the services group". In some companies research and development has become so significant that it is virtually a fourth area rather than a part of the services group. In all companies, however, occupying a unique position in the services group are the functions of finance and accounting. In many companies, ostensibly at least, a significant part of the administrative activities in terms of data-processing, management reporting and cost control fall into the finance and accounting group under the general jurisdiction of an executive who may be known as a "vice-president – finance", a "treasurer", a "comptroller" or (in a few companies) a "vice-president – administration". Reporting to the financial and accounting executive may be other officials with such titles as "office manager", "works accountant", "chief accountant", "methods supervisor", "internal auditor", "tabulating department supervisor" and a host of others.

Nook-and-Cranny Administration

In only a very few companies will it be found that the senior accounting or finance executive has jurisdiction over anything resembling the total area of data processing, paperwork, reporting and general clerical activity. Instead, it will be found that these administrative activities are carried on extensively in every nook and cranny of the marketing group, the manufacturing group and all the various departments of the services group —purchasing, personnel, industrial relations, advertising, research and development, engineering, public relations – to name only a few. Moreover, on a closer look, it will likely be discovered that each of these major groups, and most of their component divisions, departments, and sections, operate their paperwork processing and reporting facilities as if they were little empires, or at least little kingdoms, of their own. Within the average company it is not unusual to find numerous similar forms, each designed to do essentially the same job.

When it comes to reports, the situation is even worse. Reports of every conceivable type are churned out by the hundreds, daily, weekly, monthly and annually. Some will have been

Based on an address to the 40th international conference of the National Office Management Association, New Orleans, May, 1959.

produced for so long that nobody will be able to recall who started them in the first place or who now wants them, and nobody seems to care. As for systems and methods, in many companies a dozen different methods are used to process the same kind of data in a dozen different places, often using half-a-dozen different types of equipment.

And what about the cost of all this data processing and information production? Depending on the set of statistics one decides to use, it is probably a reasonable estimate that the proportion of today's sales dollar required to pay the bill for administrative and clerical activities in the average company is between two and three times as much as it was 20 years ago. This is despite the impressive advances made in technological improvements by way of mechanical, and now electronic, aids to the processing of data, to communications, and to the general administration of the office.

Bits-and-Pieces Reporting

The actual out-of-pocket costs of processing data and providing reports are far from being the only cost. It must be assumed that someone reads, analyzes and digests the reports that flow out of the administrative processes. The amount of time that is spent by the average executive in studying reports is recognized to be a very considerable proportion of his total time. This is not to imply that the executive of the future can look forward to a reportless era. But perhaps he can look forward to a day when business reports do not contain only bits and pieces of information, when they are prepared in relative rather than in absolute terms, and when they contain just what he needs and no more. Is this far-fetched? Just ask the average general manager or department head if he thinks he gets enough information of the right type. If he thinks about his answer he will probably tell you he gets far too much information, but much of it is of the wrong kind – incomplete, too many figures, not properly interpreted and generally hard to digest. He would like more information of the right type, up-to-the-minute, condensed yet complete, graphic, comparing actual performance with targets, with reasons for the "whys" and "why-nots". If you dare to ask him why he does not do something about it, when he cools off he will tell you either that he simply does not have the time, or perhaps he may even admit that he is just not sure of how to go about it. Unconsciously and without putting it in so many words he will have struck to the heart of the problem – organization.

Forces of Change

What are the forces and influences that will change the present state of affairs? There are many; some are external, others internal.

First, there are the areas outside the average business that will tend to change its shape. At the head of the list we must place the influence of government policy on the business climate. For instance, the policy of defence spending affects thousands of business organizations, large and small. Government policy is virtually a matter of life or death in some companies, and a sudden shift in policy can create chaos in the plans and operations of many others. The scrapping, a few months ago, of the program for producing the Canadian Ar-

row aircraft is a case in point. Within hours after the government announcement, the company and many of its suppliers had laid off 50% or more of its employees. In the age in which we now live the administrative machinery in our businesses must be geared for rapid shifts. It must be flexible so that it can be adapted quickly to the influence of new requirements. A prompt and accurate evaluation of the effect of a large defence order on a company's operations and results can sometimes make the difference between a successful and unsuccessful tender; it could even result in a decision not to tender at all!

Another important way in which government policy influences the business climate is in the effect of taxation, especially when taxes are used as a weapon to control inflation. Here again, the need for an accurate analysis of future business plans, weighing the impact of tax factors, has produced a requirement for types of information from the administrative processes far different from that which was needed 20 years ago. In evaluating alternative courses of business action the tax aspects may often be the determining factor.

The second major set of external influences responsible for changing the business world as we know it are the new techniques of production and the new products coming out of the factories. It has been said that over half of the products being marketed commercially today have been developed since the end of World War II. The post-war development of television and the thousands of new jobs it has created, all in a space of a few years, is a good illustration. With the aid of automation, the speed of industrial development has itself reached startling proportions. To help our industrial management cope with the speed at which the industrial complex is now whirling requires our administrative executives to devise new and faster ways of producing vital information on which key decisions must be based.

The third major external influence on the office of tomorrow is the changing pattern of business education. A generation ago the majority of our business leaders were men who had got to the top through a generalized education and plenty of experience. The great increase in the number of graduates in the business sciences during recent years and the steadily growing enrolment in schools of business administration point to the fact that our business leaders of tomorrow will be, and indeed are today, men who have grown up with modern technology and who are accustomed to making decisions on the basis of well-analyzed information rather than intuition. The administration executive will usually himself be a product of these same new educational influences, and this in itself will cause new administrative patterns to be developed. For example, it will not be many years hence when an administrative executive takes the computer just as much for granted as he now does a bookkeeping machine.

Internal Influences

As to the internal influences for change in the average business, the evidence is on hand for all to see. A few of the factors with which we are all familiar are cited here:

1. The present organizational structure in the average business is too "compartmented". The piecemeal

and departmentalized approach rather than the global approach is the common situation. New concepts are vital.

2. Communications are usually far less effective than management desires in spite of the technological advances that have come about. Means of improving communications are regarded by the management of many companies—both large and small – as a problem of first magnitude.
3. Too much of the present administrative processes are in the hands of untrained, and thus unskilled administrators. Without an explanation this would be a serious indictment. In fact, it merely emphasizes the existence of outmoded organizational concepts that require sales managers, production managers, engineers and other personnel with specialized skills and technical training to supervise or to engage in, directly or indirectly, large masses of clerical and administrative work.
4. Directly a result of the foregoing, and its inevitable corollary, is the waste of highly specialized skills and talents in coping with the direction of administrative activities which could be handled by professional administrators more appropriately and certainly less expensively.
5. The paperwork and reporting systems are becoming so cumbersome, complex and costly that without a radically new approach, such as is represented by computers, the present systems will eventually collapse under their own weight.
6. Finally, the built-in high cost of administrative services in the average company places an ever-increasing pressure on top management to maintain the proper margin between income and outgo in order to provide an adequate return on capital investment. The present trend of the cost of these services must be reversed and better value must be obtained from the money being spent. The recent business recession in the United States and in Canada caused top management in most companies to have apprehensive shivers. In some cases the shivers became the shakes. It provided an indication of just what could happen if a depression occurred.

New Concepts of Organization Needed

The impact of the electronic computer upon traditional methods of processing and analyzing business data is probably in itself the most powerful and dramatic influence in literally forcing to the attention of management the vital necessity for a complete reappraisal of organizational structure from top to bottom. But this is not to say that the several thousand companies that are today in various stages of implementing computer development programs are the only enterprises that need be concerned about this basic problem. It is by no means confined simply to devising the organizational structure to employ a computer most effectively. For those many thousands of other companies for which computers are at present beyond economic reach the problem is of equal, if not greater, significance.

At this point it may be important to emphasize that the computer is not the end, it is only a means to the

end. Computers designed for the processing of business data are admitted by all concerned – designers, manufacturers, users – to be still in their infancy. They are all less than ten years old, most of them less than five. And already we see a narrowing of the gap between conventional bookkeeping machines and punched-card equipment on the one hand and computers on the other. In fact, even now it is sometimes hard to detect just where so-called conventional equipment with its many electronic features ends and the computer begins. As might be expected in a free enterprise system, computer prices are beginning to come down and their flexibility and capacity to go up. If these trends are already clearly in evidence, what will be the picture, say, five or ten years from now? In a nutshell, the computer may accentuate the real problem although it can be an aid, and a big aid, admittedly, in its solution. But there is probably no company of any size that can today afford to ignore the tide of events which is upon us.

To return to the main theme, first and foremost in the changes ahead must be placed a thorough-going overhaul of the organization of all administrative processes. The key to the problem lies in understanding that, to a substantial degree, the basic trend of decentralization in the areas of data processing and information production, which has accompanied the growth of business thus far, may have to be reversed. To put it in its simplest terms, the paperwork must now be placed under centralized and coordinated direction and control for the business as a whole. Integrated data processing, with or without an electronic computer, must be accompanied by integrated organizational planning.

Recognition of a new concept of organizational structure involving a high degree of centralized control over basic administrative processes is just the start. The establishment of a new position entitled "vice-president – administration" or "executive vice-president – administration", with appropriate duties, authorities and responsibilities well defined, will bring with it a complete reorganization of virtually all the areas of management reporting, planning procedures, financial and cost controls, and documentation flows. Sales orders, sales invoicing, production orders, production planning and scheduling, labour controls, inventory records, procurement procedures, payables, cash flow and, in fact, all data processing throughout the organization, together with the multitude of management reports which they generate, must all come under a searching scrutiny. The new concept must visualize a completely linked and fully coordinated system of input from all sources and output to all levels of decision-making responsibility.

Role of Operations Research

The planning of a new organizational concept, accompanied by a parallel reorganization of data flow and information reporting on a fully integrated basis, provides the environment wherein the next major advance in the planning of business strategy and tactics can effectively be applied. This will be the employment of scientifically conceived techniques commonly referred to as operations research. This still new but rapidly developing area of business science can make its greatest contri-

bution to management when it can be applied at the global level of grand strategy and when the information-reporting system can provide at reasonable cost adequate data of the required type for analysis and manipulation.

Probably the most significant change of all will come through a reappraisal of the greatest element of all in the business structure, the human element. The implications of centralized, coordinated and fully effective control of data flow, manipulation and analysis in its widest aspects throughout the business structure will bring in its wake new concepts of the role that we, the people, must play if our own personal goals of human dignity and happiness are to be realized. Specifically, there must come a realization that the significance of a man's contribution to his company must not be measured only in terms of the work force over which he has jurisdiction. We must come to realize that a research scientist, unfettered with any supervisory responsibilities, can be paid as well and occupy as large an office as the manager of a work force of a thousand people. In many organizations, this change is no longer one for the future, it has already come about. Possibly the most striking examples are found in the deployment and organization of personnel engaged in such activities as guided missile and rocket development, production of supersonic manned aircraft and development of nuclear energy.

Organizing for Reorganization

Having sketched, however lightly, an outline of the changes that lie ahead, we may now ask just how, in practical terms, can they be brought about. In a free-enterprise society founded on democratic principles, the answer will be different for every company, but only in degree and in detail. A basic pattern will inevitably emerge. Its shape may be along the following lines:

1. Because it is axiomatic that organizational changes of a fundamental character, or of any character, must be launched from the top and not from the bottom, the chief executive officer, perforce, must take the initiative in setting in motion the organization for reorganization. He must define the problems, establish the objectives, formulate the general plans and select the task force to execute them. Specifically, and perhaps most importantly, he must select the right man to head the organization planning and development group. He must provide the group with all necessary facilities to conduct its studies in an environment conducive to effective results. Most important of all will be the opportunity to examine the concepts of the business in its totality, completely detached and divorced from all departmental considerations.
2. The organization planning and development group, once established, must develop the detailed plans and the work program to execute them. It must equip itself with the necessary skills, both internally and externally, to pursue the program with vigour and detachment, and with full realization of the significance of its mission.
3. There must be created, through the initiative of the chief executive officer, a board-appointed

committee to receive, consider and evaluate the reports and recommendations of the organization planning and development group. This committee must be selected with care to secure the maximum judgment, objectivity and authority. Without this vital link, any program based on these concepts is bound to fall short of its ultimate objectives.

4. Finally, when the master blueprint of administrative reorganization has been prepared, reviewed and approved, there must be set in motion, on a step-by-step approach, the basic implementation program.

New Patterns

The results of an organizational reappraisal of the magnitude and with the concepts just described are formidable to contemplate. No universal answer will emerge. Results will differ in degree and in detail, company by company. But it is probable that the general pattern will include at least some of the following features:

1. A new top-level executive function will be established. Possibly the title attaching to the function will be that of vice-president — administration, or, more probably, in the larger companies, that of executive vice-president — administration. Reporting to this position will be, on a coordinated and fully integrated basis, all elements of the data processing and information reporting systems throughout the whole organization.
2. A variety of new functions will emerge. For example, the systems planning function on a company-wide basis and the data processing function, with or without the use of computers, will be key positions in the administration department.
3. The chief marketing executive and the chief manufacturing executive will no longer be concerned with the problems of paperwork processing or, more importantly, with the requirement of making decisions on incomplete, late, or inaccurate data. They and their assistants will receive the reports and information they need to help them, but they will neither originate them nor will they supervise their preparation. They will be able to concentrate all their attention and energies on the functions for which they are responsible.
4. The same will apply to the service groups. For example, the materials and supply executive can concern himself with such matters as short-range and long-range procurement policies, analysis and interpretation of price trends, and the management of the company's investment in inventories; he will be untrammeled with the mass of paperwork so characteristic of the average purchasing department today. The true function of the comptroller, for instance, emerges as that of analyzing and interpreting information in financial terms, rather than managing the paperwork routines.
5. Throughout the entire organization there is a freeing of management and of specialist talent from the mechanics of data processing, and a new fund of time suddenly becomes available to them for thinking and planning and doing.

They will commence to function in a completely new dimension. The beneficial results are incalculable in terms of the potential increase in productive and creative effort.

6. Finally, the ever-rising costs of administration will be checked and the trend reversed. Reductions of first magnitude in this major element in the cost of doing business are virtually inevitable.

Conclusion

Perhaps it is impossible to portray in adequate terms within the limitations of a single paper even the barest outline of the shape of things to come for the administration executive. Nevertheless, it can no longer be doubted that we are moving rapidly toward what amounts to a complete revolution in the organization of the administrative processes in business. The creative genius that has in the past brought the industrial economy of the free world to its present magnificent state of accomplishment exists still today. A generation which has seen the beginnings of the atomic age, the automation age, the computer age, and the space age, within a short space of 25 years, will live to witness and indeed experience within the next 25 years the impact of changes which may be greater by far than those of the past century. The administration executive of today has a major, perhaps a dominant, role in helping to mould the business world of tomorrow.

Extra Executive Exertions

Managers and proprietors today generally work a 53-hour week — the longest work week reported by the Bureau of the Census. And, as *Business Week* reported recently, the 70-hour week is nothing strange in top management circles. The same machinery and industrial planning that substituted mineral power sources for the labours of men, thus freeing some of them from the long work week, have kept the nose of the executive firmly to the grindstone. This may be why the businessman may know a great deal about the sources of modern leisure, and yet know all too little about the consequences of it.

— R. Denney, "The Leisure Society",
Harvard Business Review, May-June 1959.

Guide to Liability Insurance Coverage

C. IVOR PROVERBS

EVERY PERSON AND EVERY corporation has a responsibility to others for damages on account of bodily injuries and/or death sustained, and for damage or destruction to property of others, if it is shown that the injuries or destruction were caused by *negligence.*

Definition of Negligence

Negligence may be defined as the omission to do something which a reasonable person, guided by those considerations which ordinarily regulate the conduct of human affairs, would do, or the doing of something which a prudent and reasonable man would not do; or, as the Anglican Book of Common Prayer expresses it, "Those things we have done which we ought not to have done and those things we have left undone which we ought to have done."

Generally, negligence is proved by the existence of inadequate provision for safety or by the insecurity of property, or negligence arises from a careless act of a servant or the servant's failure to do something needful for the protection of others. It may be proved in other ways and in Canada is a question of fact for the determination of the courts. The general principles, however, are well set out in the civil code of the Province of Quebec, which states:

> "Every person capable of discerning right from wrong is responsible for the damage caused by his fault to another, whether by positive act, imprudence, neglect or want of skill. He is responsible not only for the damage caused by his own fault, but also for that caused by the fault of persons under his control and by things which he has under his care."

From the foregoing it is readily seen that liability can be proved by negligence, deliberate acts, misjudgment or want of skill, all providing pronounced latitude for an able attorney to prove a plaintiff's right to an award for damages.

Claims

Insurance protection is available at moderate cost to cover such damages as may be claimed against one for bodily injuries, or property damage for which one becomes legally liable.

In case of claim, the insurance company takes the place of its insured client:

1. It investigates all claims, generally resulting in payment of the claim and related costs.

2. If the claim is considered vexatious or unfounded, it resists the claim on behalf of the client and pays all expenses.
3. In case of injury it reimburses its client for any unnecessary outlays entailed in providing first aid.

Present-day liability policies usually extend "bodily injuries" to include sickness, disease, shock and mental anguish.

Claims on account of bodily injuries are not easily adjusted because of the extreme difficulty of appraising the damage sustained, particularly future disability, and much speculative litigation frequently results.

Claims have increased considerably during the past decade because the public has developed a "claims-consciousness", chiefly through the publicity of court awards. Quite often the amounts demanded for solatium are beyond reasonable limit. Fraudulent claims are by no means uncommon, and insurance companies are frequently called upon to defend lawsuits which are found to be groundless.

When there is doubt as to the validity of a claim or the amount demanded is exorbitant, the court's opinion may be sought. The conclusion depends on the court's finding. The factors influencing the court's decision are most important: the proofs themselves, veracity of witnesses, skill of the lawyers, temper and patience of the judge, and, more vague than all, the verdict of 12 perhaps rightly-minded men, but ofttimes very ordinarily endowed men, on questions sometimes of the greatest subtlety and obscurity. With the combination of such conflicting opinions any decision is possible. It is sufficient to say that a court will go far to "find" for an injured plaintiff if the defendant is well able to pay.

The service of an insurance company's claims department, by reason of its wide experience and resources, is of inestimable value to an insured client as it relieves him of all the detail and worry of investigation. Expert legal counsel is provided for advice and defence, all at the insurer's expense. Backing this service is the insurance contract which provides for payment of the claim.

Specific Forms

Complete liability insurance is available under many and separate forms. The principal one is generally known as the comprehensive general liability form which is meant to apply to all operations of the insured client except those which must be insured under specific forms. There are several specific forms of liability insurance:

Workmen's Compensation

The Workmen's Compensation Acts of all provinces provide compensation for injuries and/or death sustained by employees while engaged in their duties of employment. An employer whose business is under the Workmen's Compensation Act must report to his provincial board, and is, therefore, not subject to common law action by his employees.

Employers' Liability Insurance

This type of insurance is designed to provide cover against claims by employees who may be injured within the course of their duties, providing, of course, their injury is caused by negligence on the part of the employer. There is little need for this insurance if the employer's business operations are reported to any Workmen's Compensation Board.

However, there might be instances in which a firm does employ some employees (salesmen, etc.) who are domiciled outside of its home province and whose wages are not required to be reported to the board of the province in which such employees are domiciled. If so, there is a need for employer's liability insurance, and such cover may be extended to provide voluntary compensation benefits.

Automobile Liability Insurance

All vehicles which require an automobile licence to travel on a public highway must be insured under a standard and mandatory automobile policy. The comprehensive policy does include cover in respect of unlicensed motor vehicles such as industrial trucks, mobile hoists and cranes, etc.

Non-Ownership Automobile Liability Insurance

This applies to licensed motor vehicles not owned by the employer but which are or may be operated by the owner on the employer's business. In such cases, the master can be held jointly liable with the owner in respect of third-party claims.

Aircraft Liability Insurance

Aircraft must be insured under an aircraft policy.

Watercraft Insurance

Watercraft used for carrying passengers and commercial freight and other watercraft over 25 feet in length should be insured under a marine policy. Small watercraft commonly used by certain industries such as lumber and pulp and paper mills may be included in the "comprehensive" policy.

Damage or destruction by fire and explosion to leased property

A lessee of a property may be held liable to the owner (the lessor) of a property or to the owner's insurers if the leased property is damaged by fire and/or explosion provided the loss is caused by the lessee's negligence. There have been many cases of this sort, the claims being usually made on behalf of the owner by his insurers, all of which comes within the realm of the doctrine of subrogation.

Malpractice Liability Insurance

This is a separate type of liability insurance, more commonly available to doctors, dentists, hospitals, sanatoria, etc. If, however, an industry owns and operates a hospital and employs doctors and nurses, such cover may be included in its "comprehensive" policy.

Comprehensive Form

It is the broad intent of this form to provide liability for all of an insured client's operations other than those dealing with specific forms. The comprehensive form, therefore, excludes cover in respect of such operations which must be otherwise insured and also may contain some other exclusions. In this regard it is strongly recommended that a buyer whose firm carries a comprehensive policy should carefully read the exclusions so that he knows clearly what is not covered.

For large industries, the comprehensive policy is usually manuscripted, thereby eliminating the need for endorsing the printed form in respect of certain additional cover not provided by the printed form. Manuscripting may also remove certain exclusions contained in the printed form. The manuscripted form cer-

tainly offers easier reading and eliminates cross-reference.

Products liability insurance usually forms part of the "comprehensive" policy unless otherwise excluded.

Products liability insurance applies to claims arising out of a defective product which is manufactured, sold or handled by the insured client, after he has relinquished possession of such product. Payment of loss on the defective product is not insured.

Products liability claims sometimes arise from the most obscure causes and often require extensive investigation and laboratory research at considerable cost.

Liability insurance, in general, provides for payment of claims arising out of negligence which is determined by common law. The comprehensive policy is extended to include claims arising out of contractual liability, meaning that the insured client has assumed certain liabilities by contract and agrees to indemnify and hold harmless some other party. The wording of the "hold-harmless" clause in contractual agreements varies. Here is one example:

> "The parties of the second part jointly and severally covenant and agree that they will at all times indemnify and save harmless the party of the first part from all claims and demands, loss, costs, damages, actions, suits or other proceedings by whomsoever made, brought or prosecuted in any manner based upon, occasioned by or attributable to . . . . "

The comprehensive policy does provide cover in respect of contractual liability but applies only to the types of agreements defined in the policy, which usually are:

1. Agreements with relation to a statutory warranty of goods or products.
2. Lease of premises.
3. Easements.
4. Municipal ordinance.
5. Railway sidings.
6. Elevator or escalator maintenance.

Obviously other contractual agreements are not insured. As it is not uncommon to find "hold-harmless" clauses in many present-day agreements, owners of comprehensive liability insurance policies examine all agreements, present and future. If they contain "release of liability" clauses, notice should at once be given to the insurer so that an appropriate endorsement may be prepared for this policy.

It is sound practice for a buyer to place all of the required policies with the same insurer as there could be some happenings, which, while covered, might give rise to difference of opinion between insurers.

All of the foregoing forms of liability insurance apply to claims arising out of "bodily injuries", etc. Other forms of liability insurance are:

1. Professional legal liability insurance covering claims arising out of "errors and omissions". (This cover is available to auditors, insurance agents, architects, lawyers, trust companies, etc., and is readily obtainable.)
2. Liability for claims arising out of slander, libel, false imprisonment and plagiarism. (This cover is not readily obtainable.)

It is the duty of the insured's agent or broker to have a thorough understanding of his client's operations and to develop a policy form appropriate to the client's needs. The agent should then submit his proposal to

the client, who would select or reject the form of cover to be purchased.

It is the duty of the buyer to make available to his agent all information and to examine with care the proposed policy form.

Careful consideration should be given to the limits of liability to be purchased. As a rule this is a matter of judgment because, unlike property insurance, whereby definite insurable values are known, the extent of claims for bodily injury and property damage cannot be foretold and could quite possibly run into enormous amounts.

The Man at the Top

At the National Conference of The British Institute of Management, which was held in November at Brighton, Sir John Elliot, chairman of London Transport, outlined six qualities which he thought desirable in the character of the man at the top in industry today:

First, sheer *quality*, which compelled respect; secondly, *competence*, which stimulated efficiency in others; thirdly, *clarity and firmness*, which ensured decision, saved time, and prevented muddle and misunderstanding; fourthly, *serenity*, which begot comfort, confidence and trust (not to be confused, said Sir John, with affability, "quite useful", or laziness, "unforgivable"); fifthly, *salesmanship*, "as much depends on the ability to put one's policies over to staff and public". Last, and just as important, he put *humility*, – "for the man at the top with a truly modest outlook will be proof against flattery, and a false sense of his own importance; will always be certain to hear other men say what they really think and, having heard them, will be free to make up his mind and stick to it."

Sir John said he took a sense of humour for granted. "It is impossible to retain a balanced outlook without one."

What sort of background should the man at the top have?

"In this country", he said, "it has been the exception rather than the rule for top executives to be technicians. Compare this with the almost universal practice abroad where they insist that only people with high scientific, engineering or educational qualifications shall occupy the top posts. There are two opposing schools of thought on this. If I were a technician, I think I would prefer our system, because a wise chief will rarely overrule his technical officers, providing they have his confidence, whereas the top executive who is, himself, a specialist is sometimes apt to be tiresomely fond of his own pet schemes and there may be none to say him 'nay'. This is not to say that technicians should not climb to the top, particularly in a technical age. They do. And in increasing numbers. And when they are good they are very, very good. But when they are bad they are awful."

– ***The Accountants' Magazine,*** **January 1959.**

Techniques of Personnel Evaluation

ALEX M. HILL

THE PAST FEW years have seen a growing interest in the use of more systematic methods for the selection and placement of key personnel in industry and business. This interest reflects a well-established trend towards the application of scientific methods and a more systematic approach to the management of all phases of a modern business enterprise. There is a growing feeling among businessmen that since the systematic approach has contributed so much to the success of other business functions, perhaps it can be successfully applied to the solution of critical personnel problems.

A number of companies are giving increasing attention to systematic methods for personnel evaluation. Two of the most widely used techniques are guided interviews and psychological tests. Combined with a thorough reference check and investigation, these provide a sound basis for making any selection decision.

Basic Preparation

Before a selection process is begun an accurate list of "man specifications" must be drawn up for the position for which candidates are to be evaluated. Evaluation results should be interpreted in relation to these requirements. Once they have been determined, the direction which any systematic approach to personnel evaluation must take is also known. The results of all or any of the approaches can be easily matched against the established requirements and a more objective decision made.

Personnel Evaluation Techniques

1. GUIDED INTERVIEW

The purpose of the "guided" interview is to complete the picture of the applicant and to enable the interviewer to arrive at the point of ultimate appraisal and decision. With the list of job requirements as the "guide", the latter has the challenging job of getting the applicant to tell him all he wants to know in the most natural but orderly fashion. A summary of the ground rules follows:

(a) *Establishing rapport*: The first step is to put the applicant at ease and gain his confidence. This can be achieved by establishing some common ground or interest to remove the feeling of two cautious strangers facing each other across a desk. Often the application form will provide a clue. The interviewer may

know something about a university, a school or a previous place of employment which would form a basis for discussion and lead to a feeling of mutual understanding and confidence between himself and the applicant. If possible, the interviewer selects the subject for establishing rapport so as to make a natural transition into more important phases of the interview.

(b) *Learning important facts*: Always keeping in mind the things he must learn about the applicant to evaluate his suitability for the job, the interviewer should encourage the applicant to talk about subjects which will give him the needed facts. The applicant should be led from areas which are easy to discuss to those which are more difficult. It is good to ask him first about that part of his experience which will seem to put him in the best light for the job.

In almost all cases, the applicant's "personal history" should be discussed last so that the early discussion can lead to franker, easier consideration of his home and personal life.

If important facts are to be learned, the applicant must not be made unduly cautious or nervous. The objective is to have him reveal his thoughts and feelings to the fullest extent. That takes constant encouragement on the part of the interviewer and can be achieved in the following manner:

(i) *Do not moralize, criticize or cross-examine*: A frown or other slight indication of disapproval may cause an applicant to become less talkative and more cautious of everything he says from that point on.

(ii) *Show interest and approval*: Now and then put in a "good word" about some phase of his experience which will encourage him to reveal more of the details.

(iii) *Avoid sharp or barked questions*: These are likely to indicate that the interviewer has decided against the candidate.

(iv) *Do not talk more than is necessary*: There are many things an interviewer will not learn about the candidate unless he lets him talk as freely as possible; if he interrupts he should do so subtly.

It is possible to find out many things about an applicant by the way he tells his story. While he talks, the interviewer can be asking himself: Does he think maturely? Is he convincing? Is he sincere? Can he organize his thoughts? Does he show initiative or imagination in giving his personal sales presentation? If you are doing the talking you will not get the answer to any of these questions.

(c) *Common characteristics*: There are some personality characteristics which should be possessed by a *desirable* type of applicant for almost any job. Some of these are:

(i) The applicant gets along well with people. He has a reasonable number of friends and makes social contacts easily.

(ii) He is stable. He stays on a job an average of two or three years and lives in one place for a similar period.

(iii) He possesses a reasonable degree of perseverance, i.e. has completed his schooling and gives other evidence from his past life of finishing what he starts.

(iv) He is self-reliant, i.e. gets things done for himself and does not depend on others to do them for him.

(v) He is moderately ambitious and shows some initiative, making an effort to improve himself and his position.

(vi) He has matured to the extent that he has become independent of his parents and others. He is willing to accept responsibility, i.e. takes into consideration the consequence of what he does.

(vii) He is capable of loyalty and consideration for other people, is a good father and husband, and is loyal to his employer and friends.

(viii) He has a reason to work hard (desire to raise living standard, ambition to advance, dependents to support).

(d) *The Decision*: The final decision of the interviewing should be based on the pattern of traits which the applicant's personality exhibits. The overall evaluation is not simply a total or average of separate judgments, but is the end result of weighing and balancing judgments. Not all qualifications for a given job carry equal weight. Furthermore, extremely adverse findings about any one item (lack of required technical skills, too high or too low order of intelligence, a physical handicap) may carry enough weight to overbalance all other items and cause rejection of the applicant.

On the other hand, if the schooling, home background as a child, work history, present domestic life, health record and personal record reveal the prospective employee to be industrious, conscientious, stable, ambitious, capable of making and holding friends, maintaining a good home situation, and being adequately motivated, he is the answer to the quest, if he possesses the required technical qualifications.

In brief, the guided interview consists of (1) determining in advance what is wanted, (2) adopting a plan for the interview which will provide this information in the most easily appraisable manner, (3) using leading questions and other techniques to make the interview a satisfactory yet friendly and informal one for both parties, and still obtain the information required, and (4) appraising the information developed in the guided interview and arriving at a final decision.

2. Psychological Tests

As one part of a systematic personnel evaluation procedure, candidates are often asked to take a battery of psychological tests. Most people associate tests with a school situation, where they are usually a "pass or fail" matter. Therefore, they are likely to be unduly concerned about taking tests, since they are apt to feel that their future will be decided largely by their performance on the tests. This feeling will continue to exist despite assurances to the contrary.

Because of the questions and possible misunderstandings, certain facts regarding the use of psychological tests should be made clear:

(a) *Definition of test*: A psychological test is merely a sample of performance taken under standardized conditions. As a general rule, this sample is carefully selected to be representative of a broad area of performance. This is important to remember since often the criticism of

tests is that they do not measure practical performance. Some say "What can the solving of some simple paper-and-pencil problems have to do with a man's success on the job?" Perhaps it has no direct relationship to his success, but years of experimentation and follow-up have shown that the ability to solve these problems is connected to the ability to perform certain practical tasks.

"Standardized" means the presentation of the series of tasks to be performed or problems to be solved under uniform conditions for all candidates. In this way a direct comparison can be made of the performance of any one candidate with that of any others. This is one of the unique advantages of a test, since interviews and other means of evaluation are never thus standardized.

(b) *What can tests measure?*

(i) *Intelligence* – Research studies have shown that psychological tests are most valuable in measuring certain aptitudes or abilities. The most frequently used tests for screening candidates for senior positions are those designed to measure intelligence or general learning capacity. Experimental studies have indicated that intelligence or capacity to learn is the most difficult to assess on the basis of an interview.

Generally speaking, people who score well on general intelligence tests have the capacity to use good judgment, to foresee the results of their intended actions and to make sound decisions speedily in a variety of situations.

(ii) *Specific abilities* – Important in certain jobs, these abilities can also be measured with reasonable accuracy. The abilities to understand mechanical concepts, to visualize objects of varying shapes in space, to work with figures are important to varying degrees in different kinds of positions. These characteristics are difficult to assess accurately in an interview but can be measured with tests.

(iii) *Interests and personality* – In these areas a good deal of caution must be exercised in interpreting test results. Psychologists, despite the claims of a few, have in fact not been as successful in developing valid measures of these characteristics as they have been in other measurements.

One reason why personality tests do not generally provide valid predictions is that personality characteristics are themselves not always consistent but vary with changing situations. We are all "aggressive" in certain situations and "retiring" in others; we show great tenacity in one kind of activity and very little in another.

Another shortcoming, applicable to interest as well as personality tests, is that most tests in use today are fairly "transparent" to a candidate with reasonable intelligence. A job applicant who wishes to make a good impression can usually see through the test, at least to some degree. He can answer in the way he feels will make him look most favourable whether or not he actually possesses the desired interests or traits.

Although a trained psychologist can pick up many valuable clues from interest and personality tests, he cannot put too much faith in the validity

of the raw scores obtained on these tests. For this reason most reputable test publishers will sell personality and interest tests only to well-trained, highly qualified psychologists and personnel specialists. This should be a warning to the untrained person who might have personality test scores made available to him. Literal interpretations of such scores can be misleading and damaging to the individual tested.

(c) *Test Limitations*

(i) Tests are designed to supplement rather than replace other evaluation methods, as they cannot measure all the factors. Many key qualifications can be evaluated only on the basis of a man's education, past performance, special training or demonstrated interests.

(ii) Tests cannot measure what a man will do. This fact cannot be emphasized too strongly. No matter how great the ability, it is of little value to an individual if for some reason he is incapable of applying this ability to the performance of his job. A top score on a general abilities test, for example, will not compensate for an individual's lack of motivation.

(iii) Test scores are not precise, although we all have a tendency to accept them as exact. Perhaps this is because we are accustomed to dealing with physical measures which have a much smaller margin of error. When we say a room is exactly ten feet long, it is ten feet long with an insignificant margin of error. On the other hand, a score of 86 on a test usually means that a candidate's true score is probably somewhere between 80 and 90. Small differences between candidates are relatively meaningless.

(iv) Tests are not accurate in predicting the behaviour they are designed to sample. Although we may obtain a reasonably accurate measure of mechanical aptitude through the use of a test, the accuracy of our prediction in a mechanical job may be relatively low. It is similar to using a barometric reading to forecast the weather. The barometer provides an accurate measure of air pressure, but a forecast of future weather conditions based solely on its reading could be relatively unreliable.

(v) Tests must be selected to measure the characteristics required in the job. Although this principle seems obvious, tests are too often used without sufficient attention being paid to job requirements. It is commonly assumed that the higher the score on any test the better the chances for success on any job. For some jobs it has been found that the opposite is true. In selecting applicants for relatively routine work, it is often found that persons who score high on intelligence tests adjust poorly to the job. Even among college graduates, a high test score is sometimes the clue to a liability. A very high intelligence test score, accompanied by a relatively mediocre scholastic record, for example, may indicate that the applicant has bad work habits, is lazy, or perhaps has person-

ality problems which hinder his effectiveness. Such an assumption, of course, would require verification through the interview or reference checks.

Psychological tests may appear to offer an easier way to make selection and placement decisions, but, if properly used, they are no easier and do not provide a short cut. In fact, as more systematic methods such as testing become part of an evaluation program, more time will likely be spent on personnel decisions.

Furthermore, tests do not necessarily make decisions any more clear-cut or automatic. They cannot be substituted for good judgment, and even require more discerning judgment. The extra information which tests provide, however, should make these judgments more accurate. That is why a *properly conducted* psychological testing program is a useful addition to any personnel evaluation procedure.

Conclusion

If we are buying a machine worth a few thousand dollars, it will be evaluated most carefully in order to be sure it meets exacting requirements. By the same token, personnel selection decisions must be made with great care. The selection of the right person, especially for a managerial or other key position, is so important that we cannot afford to use any but the best means available for evaluating candidates for these positions. The potential return on the investment of time, money and effort in this task is infinite.

Considerable progress has been made in the application of tests and related systematic procedures. It is advantageous to use as a minimum the three basic tools, namely, the guided interview, psychological testing and thorough reference checking. Certainly the use of systematic procedures for personnel evaluation will not result in perfect predictions of performance. With the most advanced techniques some mistakes are inevitable. Nevertheless, studies have shown that the use of more thorough and objective evaluation methods such as psychological testing will improve the batting average tremendously. Improved success in selection will aid the other functions of business. There are good techniques available; it would be foolish not to use them.

Union Funds Reopen Factory

In November 1958 when 325 employees of the Merrimac Hat Company Inc., Amesbury, Mass., became idle and company officials pondered liquidation, the Union Hat, Cap and Millinery Workers International Union offered to help finance the company. In December union members bought stock and further private financing was found. The company was then able to keep going, and in early February 1959 the first maintenance and office workers began punching time clocks again.

– *The Controller,* March 1959.

Edited by W. BARRY COUTTS, C.A.

Accounting Research

Generally Accepted Accounting Principles

It has been the practice in the United States for a number of years to conclude the usual auditor's report with a reference to the fact that the financial statements have been prepared "in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year". The suggestion has been made from time to time that a similar reference should be included in the standard form of report used by Canadian accountants. Since any discussion of this suggestion invariably involves consideration of the meaning of the phrase "generally accepted accounting principles" and argument as to which principles, if any, can be considered to be generally accepted, it is felt that a review of the opinions of professional associations and of individual writers on this subject may be helpful.

Nature of Accounting Principles

One of the basic difficulties in discussing this subject arises from the failure to recognize the rather special, restricted sense in which accountants use the term "principle". Most dictionaries recognize several meanings for this word including: a source of origin; an ultimate basis or cause; a fundamental truth or proposition on which others depend; a general fact of law of nature; a settled rule of action; a governing law of conduct; etc. The "principles" of accounting are "settled rules of action" or perhaps "governing laws of conduct"; they are not "fundamental truths" or "general laws of nature". They are, in other words, more like the empirically established "principles of good management", for example, than the "principles" of physics or chemistry which *are* laws of nature.

This view of the nature of accounting principles is confirmed by the Committee on Terminology of the American Institute of Certified Public Accountants which says that the definition of *principle* as "a general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice . . ." comes nearest to expressing what accountants mean by the word.

It seems possible that the failure to recognize the essentially tentative nature of accounting principles and the fact that they owe their validity to general acceptance rather than to any inherent truth is responsible for much of the inconclusive argument on this subject. Essentially the "principles of accounting" are rules or guides to accounting procedures which have been developed to meet needs arising in practice and which, when found useful, receive general acceptance.

To quote the American Institute Committee on Terminology again, "Initially, accounting postulates are derived from experience or reason; after postulates so derived have prov-

ed useful, they become accepted as principles of accounting. When this acceptance is sufficiently widespread, they become part of the 'generally accepted accounting principles' which constitute for accountants the canons of their art."

It follows from the nature of "accounting principles", as so defined, that they do not constitute immutable rules from which there can be no deviation. Situations frequently arise in which several "generally accepted principles" appear to justify conflicting procedures. In such cases of conflict, the test of usefulness, which is the basis on which principles were chosen in the first place, should be the basis of decision. Changing business and economic conditions also change the needs which some principles were set up to meet, and the test of usefulness must also be applied in such circumstances in order to determine whether established principles are still valid.

The wide variety of accounting principles and their continual evolution make it very difficult to determine at any time just what principles are generally accepted. The task becomes a little easier, however, when it is recognized that there are actually two classes of principles, one group consisting of certain broad rules of general application and the other consisting of the more restricted rules developed as guides to the application of the general rules to particular situations. In a summary such as this, consideration must of course be restricted to the broad principles of general application. In any case, it is this group which is usually meant when references are made to the "generally accepted principles of accounting".

Basic Concepts

Most writers on accounting theory make a distinction within the class of general principles between the basic postulates or assumptions which underlie the whole theory of bookkeeping and accounting, and the rules and conventions used as "guides to action" which, though of general application and almost universally accepted, are not fundamental to the nature of accounting.

As might be expected, few writers agree as to which principles fall into each class. This is true even if it is recognized that in many cases apparent differences in classification are really differences in terminology or in emphasis.

It is possible, however, to extract from the diverse schemes of classification put forward by different writers a general framework on which there is a fair amount of agreement.

It can thus be said that a majority of the writers on accounting principles would include in the group of basic assumptions or concepts which underlie the whole structure of accounting at least the following:

1. *Exchange concept* – the assumption, basic to double-entry bookkeeping, that every transaction is an exchange of equal values which can be expressed in monetary terms;
2. *Monetary concept* – the assumption, which in a sense is basic to the first concept, that the monetary unit is fixed and unchanging.
3. *Entity concept* – the assumption that the enterprise whose records are being kept is separate from its owner or owners. The related idea that the enterprise deals with

its owners as with outsiders, often called the "capital" concept, is also basic to the theory of double-entry bookkeeping.

4. *Going-concern concept* — the assumption that the enterprise will continue in the future as in the past so that problems of break-up or liquidation value may be ignored.

Some writers would add other concepts to this list. Others would consider some, especially 2 or 4, to be more in the nature of recognized conventions than basic concepts. Most writers, however, agree that the above ideas, if not basic concepts, are principles of accounting of one kind or another.

General Principles

In the second category, the conventions which by custom or general agreement are recognized as acceptable guides to accounting procedures, most writers include some or all of the following:

1. Periodic income principle,
2. Cost principle,
3. Realization principle,
4. Matching principle,
5. Principle of conservatism,
6. Principle of consistency.

Although the basic conventions represented by the above terms are generally accepted, the names used to describe them are not by any means universal. Some further description of the actual conventions or rules signified by these terms is, therefore, necessary.

By the periodic income principle is meant not only the assumption that income can and should be determined periodically but the idea expressed with increasing frequency by accounting writers that the determination of periodic income is the primary purpose of accounting. This idea usually appears in the form of an emphasis on the income statement rather than the balance sheet, and in practice it involves the view that the determination of a reasonable and useful figure of net income is more important than the presentation of current or realizable values on the balance sheet. Some writers would evaluate this rule to the status of a basic concept. However, the comparatively recent origin of this emphasis on the income statement at the expense of the balance sheet suggests that it is not essential to accounting and thus belongs in the category of principles. On the other hand, the frequency with which it is quoted and acted upon makes it clear that it must be considered one of the principles of accounting.

By the cost principle is meant the rule that the amount assigned to goods or services in the accounts should be the original exchange value, i.e. cost. Implicit in this principle is the assumption, which some writers designate as a basic concept, that costs can be aggregated, classified and allocated to particular goods or services in a significant manner. Some writers extend the scope of the cost principle to include that part of the realization principle which provides that costs, once allocated, should not be changed except to reflect further actual transactions.

By the realization principle is meant the generally accepted convention that changes in the value of assets should not be reflected in the accounts until such changes are crystallized by a sale or exchange. By a slight extension of meaning this prin-

ciple also includes the rule that revenues are recognized as arising in the period in which the sale or exchange occurs.

The "matching principle" is the proposition that the correct determination of income requires the allocation of costs to the period in which the benefits of the expenditure are received. In the case of the cost of goods sold this is normally taken to be the period in which the revenue from the sale is recognized.

The principle of conservatism is probably sufficiently familiar to all accountants to need no comment. It should, however, be pointed out that conservatism *per se* is no longer universally recognized as the primary virtue in accounting. On the contrary, in present-day use this "principle of pessimism" is usually regarded as a minor exception to the realization and cost principles which permit asset values to be adjusted downwards to reflect expected but unrealized losses. It is often expressed in the form: "anticipate no profits but provide for probable losses".

The consistency principle is also sometimes considered, with some justification, to be one of the basic postulates of accounting rather than a mere rule of practice. However, since it would not be necessary if the other generally accepted principles were universal and unchanging in their effect, it is usually classified as a principle. Contemporary practice regards the consistency rule not as prohibiting change but as a reminder that changes in practice should not be lightly adopted. With this idea is combined the requirement that whenever a change is made the effect of the loss of consistency should be revealed.

Conclusion

The primary purpose of the above discussion is to demonstrate by example that there are a number of rules, conventions and propositions which appear to fit the usually accepted definition of "accounting principles" some of which, at least, can be said to be "generally accepted". The list given, however, is not intended to be exhaustive or definitive. Further, since it is based on the expressed opinions of a comparatively few accounting writers, even the principles listed cannot be proven to be "generally accepted".

It is felt, however, that enough has been said on the nature of accounting principles, and sufficient examples of such principles have been given to demonstrate that there are "generally accepted principles of accounting". From this it follows that the objections to the use of this phrase in audit reports or elsewhere on the grounds that it is meaningless or that there are no such principles cannot be considered valid. This is not to say that there are no valid objections to the inclusion of the phrase in audit reports — this latter question, however, is beyond the scope of this article.

BELL TELEPHONE RATE CASE
Further Comments

Several readers have queried some of the statements in the comment made on the Bell Telephone rate case in the April issue of this journal. From their comments it is apparent that one or two of the statements made there were rather ambiguous and that some further elaboration is necessary.

The first question which it was

suggested required further consideration by the profession was as follows: "The net effect of the rejection of the first application and the acceptance of the second is to transfer to the government in the form of income taxes large sums which would otherwise have been available to the company for a protracted period. It may well be asked why conventional accounting under such circumstances will not reflect any difference in net income in respect of this loss of interest-free money." If this statement had read ". . . will not reflect *directly* any *immediate* difference in net income . . .", the point involved would, perhaps, have been more obvious.

Conventional accounting will reflect, of course, in an expanding company like Bell Telephone, a reduction in future net income to the extent that interest has to be paid on the money borrowed to replace the lost interest-free funds. Alternatively, if the expansion of income producing plant is retarded by the absence of interest-free funds, future net income will also be less than it would otherwise have been. It is not, therefore, strictly true that conventional accounting will not reflect the loss of interest-free funds. It will not, however, do so directly.

The question raised in the former article was intended to direct attention to the gap in conventional accounting procedures which this situation illustrates, with the hope that some consideration might be given to the development of some procedure which would indicate the existence and extent of such a "loss" of potential income. This particular problem is not, of course, confined to the situation described — it actually arises in every situation in which equity funds are substituted for borrowed funds. It is thus part of the general problem created by the conventional accounting practice of ignoring imputed interest costs and revenues.

The same qualifications regarding the omission of the words "direct" and "immediately" apply to the second question raised in the earlier article dealing with the method of rate setting. While there was no direct or immediate adjustment of rates to reflect the loss of the future use of interest-free funds, it is obvious that the company's need to raise additional money for expansion to replace the lost interest-free funds will hasten the day when rising costs compel the company to make another application for a rate increase. The net effect of the change in procedure will, as a result, in time be reflected in higher rates than would otherwise be required. In effect, the interest saving which under the first proposal would have ultimately benefited telephone users by reducing the amount of future increases will now be enjoyed by the people of Canada, presumably in the form of lower carrying charges on the public debt.

Whether or not this is a desirable result from the point of view of public policy is not an accounting question and is thus beyond the scope of this article. However, since it is an accounting concept which gave rise to the problem, it does seem that accountants have an obligation to consider the problem and to decide whether or not the results obtained are reasonable. If they are not reasonable, it is the accountants who should decide whether it is the accounting concept or the rate-making procedure which is in need of revision.

Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

MERGERS

(2) *Viewpoint of small firm*

In the previous column on "Mergers" some general considerations and those particularly applicable to the large firm were discussed. The advantages to the small firm will be discussed this month.

Advantages

The advantages were summed up by a senior partner in a national firm as follows: "Some additional business may be expected from a connection with a large firm. However, this is usually a disappointing feature to the small firm. In normal circumstances the large firm will give the smaller a certain number of inventory counts and branch verifications, but these do not add up to a great deal in many cases.

"A more solid advantage to the small firm is that a merger increases the likelihood that the small firm will retain clients who have grown into big corporations. The problem for small audit firms is that they tend to lose their most successful clients, because when a client grows to a size which requires public financing, it is extremely likely to want the name of a nationally known audit firm on its prospectus and statements. The small firm should also benefit from research, technical advice, forums and staff facilities."

Now we can consider some further points raised by other practitioners: "I had two junior partners. I was always concerned with what would happen to my practice in the event of serious illness or if I should die. It was obvious to me that the real value of the firm would shrink, with adverse effects on my wife and children. This problem was essentially overcome through the amalgamation.

"Then there was always the problem of retirement. Most national firms have satisfactory retirement plans, whereas it is difficult to make satisfactory arrangements in a small independent firm, because of possible changes in personnel and the financial ability of those carrying on to meet their commitments.

"I think the national firm goes a long way towards the solving of staff problems, particularly in respect to qualified men. Unless an independent practitioner is able to assure his qualified personnel that there may be a partnership in the offing, it is difficult to keep good staff, whereas in the national firm there is always the possibility of moving staff from one city to another.

"The operation of an accounting practice, during the past ten years, has become a very complicated affair. One is expected to be a tax expert, a systems expert, and to be on top of all the latest developments in auditing. It is impossible for one man, or even two for that matter, to be expert in all these things. It is very reassur-

ing when you can call on your partners in other cities for assistance on some specialized work, particularly in the tax field.

"Every accounting firm should have an office manual. We did have a sort of manual, but it took a great deal of the partners' time to keep it up-to-date. When we amalgamated we were of course supplied with manuals which had been built up as a result of a vast amount of experience and which were very useful to us in streamlining our operations."

"Contacts are increased. Any contacts in parts of Canada remote from the small firm's office may become useful as the national firms will be able to serve them. The friends, associates and clients of the partners of the national firm become new contacts for the local firm. Also, clients of other offices of the national firm and their friends coming into the city to establish businesses become sources of growth. The local office will, of course, do all the work in that city that has to be done for the clients of the firm. If the small firm that has entered into the merger is a new office for the national firm, this is all new work and possibly different work for the partners of the small merging firm. The work that is done for the national firm may include many types of engagements different from those the small firm has done heretofore and so will add to the general interest and satisfaction of professional work.

"Because growth results from a merger, the small firm can eliminate some of the bookkeeping work and concentrate on more skilled professional work. More capable people can be employed at work that attracts higher fees, and the partners' time is used more in supervision and advising clients.

"If the income of the partners is not related entirely to the local office, it will be stabilized. The income of a small firm is tied in with local conditions whereas fluctuations on a national basis are likely to be much less. The merger may result in a more economical operation because of a reduction in overhead when two offices are pooled. The national firm may give an increased feeling of security to the local partner. He will have fewer problems in the event of prolonged illness. Some people feel they have greater prestige as a partner in a national firm.

"Where a profitable practice has been built up and the senior partner has reached an age where he feels that he does not wish to devote his full time to the practice of his profession or where, for health reasons, he is not able to carry on, in order to realize on the goodwill of his practice, he has to consider disposing of it. His junior partners may not be able to finance the purchase or may not wish to assume a substantial liability by taking over the practice. In these circumstances, a merger may prove to be a satisfactory solution.

"To the person who wishes to devote his full time to the practice of his profession, the emphasis the national firms place on technical competence provides increasing satisfaction. In the national firms there is a greater opportunity to use specialists because of the size of the practice. In the small firm, the partner has to devote his talents to the problems of the clients he has, and he usually becomes a general practitioner. He may prefer certain types of work such as taxation, management advisory ser-

vices, administration or personnel training. In the national firm he has more opportunity to develop these specialties. Partners' meetings, committee meetings and other inter-office contacts bring partners together and provide the opportunity for fellowship with people of related backgrounds."

Let us have no illusions as to why some of the most successful one-city medium-sized firms merge. In many cases the merger is forced on them because of the terrific growth of one or two client companies. These clients often depend on their auditor for an unusual amount of service. He expands his operations to provide this service and eventually reaches the point where these one or two clients represent a substantial portion of his gross income. When these clients become so large that they wish to be publicly financed the small practitioner finds that his name will not carry sufficient weight with recognized investment houses or in financial circles. He is faced with the necessity of either linking his practice in some way with a national firm, or resigning himself to the eventual loss of a substantial part of his gross revenue.

Small Firms' Appraisal

One of the big advantages, so far as the small firm is concerned, is the security which the national firm can provide. Payment or non-payment for goodwill is something that depends upon individual cases, but the small practitioner who does merge is generally guaranteed an income of not less than his average for the last three years as well as a pension scheme which will adequately provide for his needs after retirement.

When considering a merger, what points should the small firm look into? First, would it be a desirable partnership? Are the existing partners of the same temperament, outlook and thought as the smaller firm? What are the large firm's reasons for merging? Would the merger benefit all concerned? What would be the effect on the small firm's clients, on the local community, on associates? What would be the standing of the small firm's partners in the overall picture after the merger? Will the merger result in a larger income for the smaller firm?

A member of a national firm has the following advice for anyone contemplating a merger: "Congeniality is more important to the small firm than to the national firm. The small firm will be a small part of the total picture, and the local partners will therefore be more or less at the mercy of other partners. So they must be very sure of the men to whom they are entrusting themselves. The small firm is entitled to expect security in financing its operations and in providing some method of retirement in the event of sickness or old age. This kind of protection can be afforded in a large firm and not in a small one. The small firm should also, of course, be interested in the reputation of the national firm as it will form part of it, and have little chance of materially influencing its nature."

Another correspondent has this to say: "Once a small firm has decided to merge, there seems to me to be little difference between what it must do and what it would advise a client to do in similar circumstances. Matters of capital contributions, profit and loss ratio, areas of participation, rights for further participation, man-

ner in which previous commitments of the small firm as to personnel etcetera will be dealt with, provision for withdrawal and payments on withdrawal, and the rights of the persons withdrawing to practise, must all be carefully studied."

A partner who recently merged his practice with a national one has a detailed list of points to cover: "When a practitioner considers joining a national firm, there are two things he should think about. One is himself. He should think seriously about what he wants to do, what his aims are, his qualifications and temperament. He should also think about the national firm, its people, methods of organization and financial arrangements. These are elementary points but it is surprising how often they are not given proper consideration.

"A good look should be taken at the manner in which the large firm operates. To what extent is its management centralized? To what extent do the individual offices make their own decisions? How standardized are its administrative and technical procedures? In what respects does it operate differently from the way the small firm has been accustomed to operate? How easy or difficult will it be for the staff and partners of the small firm to make the adjustments that are necessary to fit into the larger organization? What are the personalities of the top management? Are they inclined to be dictatorial, or do they give leadership and guidance? Do they inspire or dominate?

"If the national firm has various classes of partners, serious consideration should be given to the rights of each class, how one is promoted to another class, and the financial arrangements for each class. Some partners will participate solely in the results of the local office; others may also participate in the overall firm; still others may be general partners who participate solely in the firm as a whole.

"The national firm may have no office, a small office, or a large office in the small firm's city. Each of these situations gives rise to different problems. Where there has been no office, it is likely that the senior partner of the small firm will become the managing partner in that city for the national firm. Under these circumstances, the relationship of the people in the small firm may continue very much as before. The only changes to be made are those necessary to bring the smaller firm's employees into line with the policies and methods adopted by the larger firm.

"However, the national firm may propose to transfer a partner from another office to be the managing partner. In that case, one has to consider the personality of this man. Where the national firm has a smaller office than the local firm, the situation may be quite similar to that where there was no office. If the partner of the national firm is to be the managing partner of the enlarged office, again there is the question of personalities to consider. An advantage in these circumstances is that it will be easier for the smaller firm to make the adjustments necessary in its methods and policies.

"Where the local firm is smaller than the national firm's existing office, much thought has to be given to the compatibility of the partners of both firms. Generally, the merger would not be proposed unless these people had a high regard for each other,

both as to technical competence and personally.

"Serious consideration will also be given, of course, to the financial basis of the merger itself. The small firm has its tangible assets and goodwill to be equated with those of the national firm. If the incoming partners do not enter on the basis of fully paid equities, consideration must be given as to how and when these equities are to be paid for.

"Inquiries should be made as to the firm's pension and retirement program for partners. Is there a fixed retirement program? Are senior partners required to retire at a certain age? Are these senior partners required to reduce their equities in the firm, or do they continue to hold substantial equities past the time that they are giving beneficial service to the organization? Are increases in participation in the firm's profits related to the services that the partners render? Are partners in the position of increasing their equity solely because of their wealth?

"When a merger is entered into, in some cases what develops may not be entirely to the liking of every partner, and some partners may wish to leave the firm. Accordingly, the financial basis of termination and the restrictions that may be placed for a time on the terminating partner, so far as the practice of his profession is concerned, should be considered."

One correspondent suggests that a small firm's partners should look for a prospect of a higher income than they would receive if they did not merge, protection of their investment in goodwill, and a clear statement of their authority.

Problems Arising

It is also as well to know about the problems. A substantial cost is involved in completing a merger. There will be direct expenses for such items as moving, changing stationery, preparing agreements. Time will be consumed in discussing arrangements and in training personnel in new procedures.

Income tax problems may arise because of differences in accounting methods. The fiscal periods may differ. The national firm may be on a fully accrued basis of reporting income, whereas the local firm may be on a cash basis. In this case, it is likely that the incoming partners will be faced with a tax on the value of their receivables and work in progress.

There should be very few client problems because the same people will be looking after the clients' interests. However, if a client has not been entirely satisfied with the service he has been getting, he may use the merger as an excuse for changing auditors.

Before entering into the merger, it would be well to canvass the situation with the more important clients. Also consider whether the adoption of procedures and policies of the national firm, which in some cases may be quite different from those that were followed by the small firm, will have an adverse effect upon clients. Generally, there is room for flexibility, and the national firm is not likely to take any action that will cause the loss of a desirable client.

A proper attitude towards the merger is essential from the start. Presumably both parties will benefit; accordingly, neither should try to bargain so hard that it will profit at the expense of the other.

BY PETER C. BRIANT, M.B.A., C.A.

Current Reading

MAGAZINE ARTICLES

ACCOUNTING

"How We Train Our Accountants to Think Like Managers" by L. W. Brummer. *N. A. A. Bulletin,* April 1959, pp. 29-41.

This stimulating article describes how a young, progressive company trains its accountants to think and act in management terms. For success in this endeavour, according to the author, accountants must be immersed in the management atmosphere so that they absorb management's desire for business health and growth and participate in management's thinking and planning. This objective has been achieved in Brummer's own company, the Chemstrand Corporation, by having the accountants work for a line executive as well as for a financial executive. Each cost accountant, for example, maintains his office in the manufacturing area, and acts as staff assistant to the superintendent of the area. He is responsible for specified accounting functions, and reports to the plant accountant. In addition, he is available for whatever accounting service the area superintendent needs. He may devote his time to strictly accounting functions or he may take over the supervision of area clerical and office management duties to suit the convenience of his manufacturing superintendent.

The plant accountants, in turn, work for two bosses. They are on the operating payroll, and are subject to compliance with the executive's administrative rules and regulations. But the accounting work they do is directed by the corporate controller's office, and they look to the controller for their own future advancement in the corporation. The controller's office closely supervises the activities relating to procedure, efficiency and salary changes. The operating executive approves all administrative changes and uses the accounting unit directly as his own group without reference to the controller. An accountant can work for two masters, Brummer asserts, when all three persons involved have learned to think as managers.

Candidates for employment in Mr. Brummer's company must demonstrate, by examination, that they possess initiative, imagination, and intelligence. These innate attributes are then developed through on-the-job training, special assignments, weekly classes, and university extension courses. The system is enthusiastically endorsed by the line managers, the controller, the general auditor and the accountants themselves.

"How Accountants Can Help Improve Corporate Annual Reports", Reported. *The Controller,* May 1959, pp. 255-256.

There are still too many accountants who continue to look upon their work on annual reports as a routine and technical exercise, reports *The*

Controller. In the opinion of Weston Smith, a New York consultant, it is up to the accounting profession to make annual reports more meaningful by:

1. Recommending the publication of more breakdowns in the totals for sales (by products, divisions, or services) and for the cost of sales and expenses, showing separately wages and salaries, pensions and other benefits, administrative, selling and advertising expenses, research and development costs, depreciation and amortization.
2. Adding all possible percentages, averages and ratios which are appropriate to the industry involved, in order to serve the nominal requirements of security analysts and other investment professionals. Included in this list of useful ratios are the following:

   Per cent of expenses to gross revenues.
   Per cent earned on average invested capital.
   Per cent earned on common stock equity.
   Turnover of total capital used – ratio of sales to total assets employed in the business.
   Average hourly, weekly or annual wages per employee.
   Average hours per week worked per employee.
   Assets per employee.

In addition to percentage comparisons, averages and ratios, an analysis of the shareholder list is also said to be necessary. This should take the form, it is reported, of a breakdown of share ownership, showing the number of men, women, joint accounts, charitable and educational foundations, insurance companies, mutual funds, industrial companies, and in brokers' names, by nominees and others.

"NOT SO PETTY LARCENY" by Harvey Burstein. *Harvard Business Review*, May-June 1959, pp. 72-78.

Company protection against larceny and fraud is underestimated, according to the author of this article, a lawyer by training and former special agent of the F.B.I. One of the biggest obstacles, he states, in management's efforts to prevent losses is over-reliance on insurance, alarms, or guards for protection.

In planning a sound security program, Burstein suggests that attention be given to external and internal physical security and to a careful screening of prospective employees. Additional attention should be paid to controls that stem from appropriate administrative action. More specifically:

1. The strictest practical application of accountability must become the rule rather than the exception. Supplies, equipment, raw materials and finished merchandise must be accounted for constantly, and responsibility fixed.
2. Costly loss of time should be considered by management. A large retail drugstore lost money, for example, because it was losing working time. The purchase of a time clock for $300 stemmed the loss.
3. Conditions conducive to gambling should be eliminated.
4. Records must be adequately protected and safeguarded. Insurance policies, accounting, personnel and tax records are especially important to preserve.
5. The average business concern should consider inaugurating and maintaining a security program with competent guidance from professionally trained individuals.

BUDGETING

"BUDGETARY CONTROL FOR A NON-MANUFACTURING COMPANY: AN INTRODUCTION AND OUTLINE" by Peter C. Neff. *The South African Accountant*, March 1959, pp. 17-25.

This is an extremely detailed and comprehensive outline of the essential points that arise in forecasting, planning, coordinating and controlling the operations of a business organization. The main advantages and limitations of a budget are summarized and the factors to be considered in projecting sales, costs, investment in plant and equipment, and cash flows are listed.

In Neff's view, the requisites which must be satisfied for the successful operation of a budget are:

1. An accountable business organization in which authority and responsibility are properly defined and developed.
2. Clearly defined business policies.
3. An adequate supply of accurate information and pertinent data for preparing budget estimates.
4. A definite plan for the administration of the budget after it has been prepared.
5. A well-devised and complete general accounting system organized to furnish basic information, and to prepare period-to-period comparisons of estimates and performance.
6. An adequate and complete accounting classification of the general ledger and of the cost and other subsidiary ledgers to be used in classifying the budget estimates.
7. An adequate cost system controlled by the general books of account.
8. Perpetual inventory records of stocks, and adequate plant and equipment records.
9. A schedule of the regular weekly or monthly reports, departmental expenses and monthly financial statements.

EQUIPMENT

"ELECTRONIC COMPUTERS" by Robert Glendinning. *The Accountants' Magazine*, April 1959, pp. 292-308.

This paper surveys electronic computers. It describes what they are, places them within the general context of the development of accounting equipment, and explains what they can do. Also discussed are the circumstances in which computers may be suitably installed and the factors to be taken into account when their introduction is under consideration. Finally, it mentions some audit considerations.

The author offers the following check-list of factors to be considered when deciding whether or not to install electronic data processing equipment:

1. *Speed and capacity* — Each of the main parts of an electronic data processing unit (the input unit, the storage unit, the computer unit and the output unit) must be studied both in relation to requirements from each individually and in relation to demands each makes on the other.
2. *Control* — The control records to be provided for.
3. *Preparation of data* — The method of preparing the data and the work involved.
4. *Reliability* — Although electronic data processing equipment is quite reliable, provision should be made to meet exceptional contingencies.

5. *Flexibility* – Unless the system adopted is confined to a limited field, it should be adaptable to changing needs.
6. *Maintenance* – During the early period after installation, ensure that an adequate maintenance staff specially trained is readily available.
7. *Service* – Have within call a representative of the manufacturers of the equipment.
8. *Investment requirements and justification* – Apart from the ordinary factors to be considered, saving of space should be taken into account.
9. *Working requirements* – The computer installation should be compact in order to save time and effort in the transfer of records from section to section of the organization. Room should be left for expansion.
10. *Delivery and installation dates*– If the change to electronic data processing is to be made as smoothly as possible, delivery and installation dates are important factors in deciding on the type or make of equipment.
11. *Reading medium* – Punched cards and punched tape can be read visually, magnetic tape cannot; on the other hand, magnetic tape or magnetic drums can be "read" by the equipment much more quickly.

GENERAL

"The Logical Approach" by Irving M. Copi. *Systems and Procedures,* May 1959, pp. 22-25.

There would perhaps appear to be, on the surface, no close connection between a scholarly discussion of logical processes of thought and the work of a chartered accountant. However, it can be inferred from the following condensation of the article cited above that both accounting and auditing are, in fact, exercises in applied logic.

In their study of fallacious arguments, logicians have been led to the conclusion that a widespread source of error in reasoning is the unclear, vague and ambiguous language in which premises are often set forth. The imprecise formulation of a problem can lead to a delay in arriving at a correct solution. In some cases, unclear language can prevent the reasoner from arriving at any conclusion at all.

Another obstacle to the successful solution of problems is failure to ask the right question. In any office, for example, the real problem may be to route information efficiently. If the supervisor makes the mistake of asking how *more* information can be processed, the original and real problem may go unsolved. A businessman may have the real problem of cutting down on his production costs. If he mistakenly formulates the problem by asking how to increase his volume, he may well fail completely to solve his real problem.

An argument setting forth the extended reasoning used in solving complicated problems can be compared to a chain, whose several links are the smaller arguments or sub-arguments dealing with particular steps in the process. For the reasoning to be correct, for the chain really to lead from the premises to the conclusion, two conditions must be satisfied. First, each of the several links must be intact, each of the sub-arguments must be valid. Secondly, the sub-arguments must really interconnect with

one another to form an unbroken chain leading from the statement of the problem to its solution.

The separate parts of a problem cannot safely be distributed among different persons for a solution unless the whole is integrated by one person before the investigation is complete. The reason is that premises often have fertility in combination that they do not have separately. Premises must be brought together in the mind of a single person before conclusions can validly be drawn from them. Herein lies the advantage of team-work; the information of several persons can be pooled to provide new information. There is also a possible danger; unless the information possessed by the several members of a team can be pooled or integrated in one mind, new information may simply not be forthcoming.

BOOKS RECEIVED

"Principles of Accounting — Intermediate", by H. A. Finney and H. E. Miller, 5th ed.; Canadian edition prepared by K. F. Byrd; Prentice-Hall, Inc., New York; 956 pages; $8.50.

The fifth edition of this standard text has now been adapted for Canadian use by Professor Kenneth F. Byrd of McGill University. Professor Byrd has rewritten the chapters affected by the provisions of the Canadian Companies Act, Income Tax Act and Bills of Exchange Act, and has inserted applicable references to and extracts from the research bulletins issued by the Canadian Institute of Chartered Accountants. Thus the material in the book is designed to conform more closely than ever before to Canadian accounting techniques.

Edited by CAMPBELL W. LEACH, C.A.

Tax Review

(*This is the third and final article covering non-residents investing in Canada.*)

FOREIGN BUSINESS CORPORATIONS

Although the subject may be somewhat academic in view of the amendment to the Income Tax Act withdrawing the privilege of qualifying as a foreign business corporation, except for those corporations that were qualified for the 1958 taxation year (or if incorporated prior to April 10, 1959 would have qualified in their first fiscal period), it nevertheless will be of interest to corporations which are already qualified. Furthermore, the Minister of Finance has indicated that the subject is to be given further consideration and study, and thus interested parties will have a chance to make their views known. The reasons for withdrawing the privilege were twofold. In the first place, there was the possibility that certain loopholes existed which created a tax haven in Canada or which were used as a means of tax avoidance. Secondly, there was the situation where the advantages of incorporation in Canada and protection under Canadian laws were being extended without any compensation to Canada. Rather than amend the section to close the loopholes and perhaps increase the filing fee, the Minister felt that the whole section should be reviewed. The only revenue that Canada derived from such corporations, apart from personal income tax on employees and advisers, was the tax on dividend payments. However, this tax could be avoided, except in the case of Canadian residents, by ensuring that the company was not resident in Canada. It may be also that the change was instigated by constant demands for rulings and pressure from exporting interests who wanted the same advantages.

A foreign business corporation (formerly referred to as a 4k company) may arouse the interest of non-residents because it is exempt from federal income tax entirely and is only liable for an annual fee of $100. The original provision exempting such corporations from taxation in Canada was enacted in 1918 to permit certain large Canadian-owned companies carrying on business exclusively outside Canada to be managed and controlled from Canada without incurring a liability for tax. Generally speaking, any corporation which is managed and controlled from Canada is resident in this country and, of course, is liable for tax. By exempting a resident corporation from tax in certain restricted circumstances, the law inadvertently opened the way for the formation of Canadian base companies by non-residents. Such a company is often regarded as a convenient reservoir to accumulate profits earned in foreign countries where the political climate or other factors make it undesirable to leave in those countries any more

funds than necessary. It may also act as a convenient vehicle by which all foreign operations may be centrally managed and controlled. In addition, the tax advantages can be substantial in certain circumstances.

Definition

A foreign business corporation is a corporation that during the whole of the taxation year in respect of which the expression is being applied—

(a) was not a personal corporation;

(b) has,

(i) within 120 days from the end of the year, filed a return for the year in prescribed form and paid an annual fee of $100, or

(ii) within 370 days from the end of the year, filed a return for the year in prescribed form and paid an annual fee of $100 plus a penalty for late filing equal to $10 for each day of delay after the expiration of the 120th day from the end of the year;

(c) complied with one of the following conditions:

(i) its business operations were of an industrial, mining, commercial, public utility or public service nature and were carried on entirely outside Canada (except for management and the designing, purchasing and transportation of goods if the goods were not acquired for resale in the course of trading and were acquired for the operations so carried on outside Canada) either directly or through ownership of shares in or control of subsidiary or affiliated corporations and its property, except securities and bank deposits, was situate entirely outside Canada,

(ii) it was the wholly-owned subsidiary of a corporation that complied with the conditions in subparagraph (i) and was wholly engaged in carrying on business outside Canada, or

(iii) its business was of an investment or financial nature and was carried on entirely outside Canada, its shares had been offered for public subscription or were listed on a recognized stock exchange in Canada or elsewhere and its property (except bank deposits and shares of other corporations that were entitled to exemption under this section) were situate entirely outside Canada; and

(d) derived not more than 10% of its gross revenue from the leasing or operation by it of a ship or aircraft.

It is provided, for purposes of the above, that shares and bonds of corporations incorporated in Canada shall be deemed to be property situate in Canada notwithstanding the fact that they have been transferred on a register outside Canada. It is also provided that such a corporation will not lose its exempt status if its business operations were carried on in part in Canada through the ownership of shares in or control of one or more subsidiary or affiliated corporations whose business was of a mining nature. If such a situation exists, the main business operations of the foreign business corporation must be of an industrial, mining, commercial, public utility or public service nature and may not be of an investment or financial nature.

Although such a company may not be a personal corporation, it is to be noted that, for the purposes of Canadian taxation, a personal corporation is one controlled by an individual resident in Canada or by such an individual and one or more members of his family who are also resident in Canada. This restriction, therefore, is of no interest to non-residents.

Sources of Income

As may be seen from the definition of a foreign business corporation, the type of income which it may receive is extremely broad so long as it does

not emanate from Canadian sources. The terms "industrial, mining or commercial" are quite far-reaching and would include, amongst other things, fees for engineering services, royalties from manufacturing patents and rental income from property other than a ship or aircraft. Such business may also be carried on through the medium of subsidiary controlled corporations, and it would appear that the ownership of bonds or other securities of such controlled corporations would not be a disqualifying feature.

Some confusion exists as to the meaning of "public service", but it is suggested that the term is merely an amplification of the phrase "public utility" and would envisage the provision of some service such as transportation to members of a community where the operation of the business involves some legal franchise or monopoly.

Distributions

Non-residents receiving distributions from foreign business corporations by way of dividends, interest or royalties are subject to the same non-resident taxes as if they were received from an ordinary Canadian company. One exception to this rule is made in the case of dividends paid by such a company to residents of a country from which the company derives its income. Section 107 exempts such dividends from tax entirely if 90% or more of the corporation's gross revenue is derived from the operation by it of public utilities in a country in which the non-resident resides.

General

Insofar as a foreign business corporation may interest non-residents, it does so, not from the standpoint of investing in Canada, but rather as a means of establishing a base company for investment and operations to be carried on elsewhere. Depending upon the form the investment is to take or how foreign operations are to be carried on, a foreign business corporation may very well prove a convenience to non-residents. The provisions were originally enacted to exempt certain companies technically resident in Canada from Canadian taxes if their income was wholly derived from foreign sources. Consequently, companies may frequently elect to be treated as foreign business corporations because they are in doubt as to whether or not they are resident in Canada.

It is now obvious that the indiscriminate use of foreign business corporations is not looked upon with favour by the Department of National Revenue, and it may well be that they will seek to disqualify those companies that do not come within the express provisions of section 71 of the Income Tax Act. Rather than rely upon the protection afforded by section 71, it may be as well for a foreign business corporation to so arrange its affairs as to establish that it is not resident in Canada, if possible. This has the double advantage of removing the income from the grasp of the Canadian tax authorities as well as exempt its dividends, interest and other payments from the normal non-resident tax referred to above.

Subsection 1 of section 28 of the Income Tax Act permits ordinary Canadian corporations to exclude from taxable income dividends received from a foreign corporation if the receiving corporation owns more than 25% of the issued share capital which has full voting rights. It may

well be that this provision can be used more advantageously than the provisions of section 71.

Provincial Income Taxes

At the present time only two of Canada's ten provinces levy a corporation income tax. The Province of Ontario recognizes the status of non-resident-owned investment corporations and foreign business corporations provided that they so qualify under the federal Act. If so, the only tax payable to the Province of Ontario is a place of business tax amounting to $50 per annum for each permanent establishment in Ontario. Where the paid-up capital is less than $100,000, the place of business tax is calculated as 1/20 of 1% of the paid-up capital for each place of business, but under no circumstances may the tax be less than $20.

The Province of Quebec does not grant exemptions to these special status companies but does have a "holding company" status which may apply. Holding companies must do no business in the province other than holding stocks, bonds and other securities of other corporations. In this connection, it is to be noted that the ownership of mortgages, real estate, patents, etc. will not permit such companies to obtain "holding company" status. Holding companies pay tax on their net profits (without deducting dividends received but after deducting interest paid) at the rate of 1/20 of 1% minimum $25. They are subject to the usual place of business tax which is $50 for each place of business in Montreal and Quebec and $25 for each place of business elsewhere in the province. Where the total paid-up capital is less than $25,000, the above amounts are reduced to $25 and $20 respectively. The tax on capital payable by holding companies depends upon the total amount of the paid-up capital and whether or not the company is 95%-owned by non-residents of Canada. The rates are as follows:

	Non-resident ownership	
Paid-up capital	*under* 95%	*over* 95%
20,000	20	20
35,000	30	30
100,000	90	60
500,000	160	80
1,000,000	200	100

Where the paid-up capital is in excess of $1,000,000, "over 95%" companies must pay $100 for each million or fraction thereof in excess of the first million while "under 95%" companies must pay $100 for each half-million or fraction thereof.

Where corporations located in Ontario or Quebec do not qualify as NRO, foreign business, or "holding company", they will be subject to provincial taxes upon the income earned in Ontario and Quebec. In this connection it is to be noted that the Province of Ontario will tax any company that has a permanent establishment in the province while the Province of Quebec will seek to tax any company doing business therein. As a practical matter, therefore, it is usual to locate non-resident-owned investment companies and foreign business corporations outside the provinces of Quebec and Ontario if possible.

Estate Taxes and Succession Duties

Under the provisions of the Canadian Estate Tax Act which became effective on January 1, 1959, an estate tax of 15% is levied upon the value of all property situated in Canada owned by a non-domiciled decedent to the extent that such prop-

erty would have been subject to tax if the deceased had been domiciled in Canada. No tax is payable where the total value of the property in Canada is $5,000 or less. This is a departure from the provisions of the old Succession Duty Act where tax was levied upon property situated in Canada at graduated rates determined by reference to the decedent's total estate, the amount of each bequest and the relationship of the beneficiary to the decedent. In calculating the taxable value of property subject to tax, no allowance or deduction may be made for debts or encumbrances except to the extent that they are actually secured by or charged upon the property itself. The usual rules regarding situs of assets are applicable except that shares, stocks, bonds, debentures and debenture stock of a corporation (including rights to subscribe for shares) are deemed to be situated in the place where the company is incorporated.

The tax of 15% is reduced to 7½% where the property is subject to provincial succession duties. Provincial succession duties are levied by both Ontario and Quebec upon the aggregate value of property situated within the province. Unlike the federal Act, however, the rate of duty depends upon the total value of the decedent's estate wherever situated, the size of each bequest and the relationship of the beneficiary to the decedent. The maximum rate in Quebec is 35% and in Ontario 43.75%.

Agreements with Other Countries

Canada has entered into reciprocal tax conventions with certain other countries which may affect some of the foregoing comments. Non-residents considering investment in Canada should always examine the treaty between their country and Canada, if any, to see if there are clauses which might mitigate certain provisions of the Canadian Income Tax Act or which might afford relief in their own country. Canada has entered into reciprocal tax conventions with the following countries:

United States of America
United Kingdom (and certain colonies)
Belgium (including Belgian Congo)
Australia
Denmark
Finland
France
Germany
Ireland
Netherlands
New Zealand
South Africa
Sweden

All the conventions provide that industrial or commercial profits derived from one country shall only be subject to tax in that country if the enterprise, being a resident of the other state, maintains a permanent establishment therein. All the conventions, with the exception of that concluded with France, exempt from tax in certain circumstances remuneration received for personal services in the country of which they are not resident.

With respect to income derived by non-residents from Canadian securities or property, all the conventions limit the rate of tax to 15%, but as this is the maximum rate imposed by Canada in any event, they are of no practical significance to non-residents receiving such income from Canada. However, with respect to dividends received from subsidiary companies by non-resident parent corporations, the rate of tax is sometimes reduced to 5% or to nothing. The following table indicates the applicable rate:

APPLICABLE RATE OF TAX ON DIVIDENDS RECEIVED FROM SUBSIDIARIES BY NON-RESIDENT PARENT CORPORATIONS

Non-resident corporations owning	*5% tax applicable to dividends paid to corporation resident in*	*No tax applicable to dividends paid to corporations resident in:*
All the subsidiary corporation's share capital having full voting rights under all circumstances (except directors' qualifying shares) and either the chief business is the making of loans, or not more than one-quarter of the gross revenue is derived from interest and dividends (other than from wholly-owned subsidiaries)	All countries (by virtue of section 106(3) of the Income Tax Act)	United Kingdom (including Aden Colony, Antigua, Barbados, British Guiana, British Honduras, Cyprus, Dominica, Falkland Islands, Fiji, Gambia, Gold Coast, Grenada, Jamaica, Kenya, Mauritius, Montserrat, Nigeria, Nyasaland, St. Christopher and Nevis, St. Lucia, St. Vincent, Seychelles, Sierra Leone, Southern Rhodesia, Tanganyika, Trinidad, Uganda, Virgin Islands, Zanzibar)
More than 50% of the subsidiary corporation's share capital having full voting rights under all circumstances	Denmark Finland Ireland Sweden	Netherlands
At least 51% of the voting stock either alone or in association with not more than three other corporations each owning at least 10% of the voting stock and not more than one-quarter of the gross income (unless its chief business is the making of loans) is derived from interest and dividends (other than from subsidiaries)	Belgium (including Belgian Congo and the Territory of Ruanda-Urundi) United States of America	

BY J. E. SMYTH, F.C.A.

Associate Professor, Queen's University

Students Department

Responsibilities in on-the-Job Training

R. D. Thomas, C.A.

In addition to the excellent academic training that students of our profession receive through the course of instruction, many firms provide extensive staff training programs of their own. It is clear, however, that probably the most valuable aspect of professional training is on the job. It is equally clear that the most effective on-the-job training a student can receive is at the hands of seniors who themselves are well trained and imbued with the necessity of imparting their knowledge and experience to those who serve under them. This is not a casual interest, nor should it be reserved for personal favourites.

It takes time for a senior to explain thoroughly what his staff are to do and why they are to do it. The time is well spent for, if this is not done, there is the very real danger that junior and intermediate students will come to regard their work as boring routine, and the carelessness that can result is deadening to the students and dangerous for the firm that employs them. Conversely, time that is taken to guide staff is quickly and amply rewarded because well-trained students perform more effectively on the job and, in their turn, become seniors capable of carefully training the staff under them.

The responsibility for effective on-the-job training does not belong solely to seniors, supervisors or partners. Each student who is working on a job under a more experienced senior should be sure that he raises questions, and has them answered to his satisfaction, in any areas which he does not fully understand. Often students are too embarrassed or too indifferent to admit when they need further guidance. The habit of thoughtful, logical enquiry must be nurtured and developed continuously.

Probably the most useful way for a firm of chartered accountants to assess its on-the-job training is to have annual written comments and ratings of the students from the partners and supervisors under whom they have worked. The students' written comments on the training they have received and the additional experience and responsibilities they have gained during the year should also be secured. These ratings and comments should be discussed frankly with each students by a partner. Students who are counselled in this way are in the best position to make sound professional development.

The time for seniors to be sure their staff understand their work, and for students to ask questions to clear up difficulties, is obviously during interim or "off-peak" audits. Proper use of on-the-job training between work load peaks will contribute greatly to a happier, more informed approach to audits by students and

hence to greater production by members and students alike during the peak periods.

AUDIT SITUATION

The following case history indicates the importance of recognizing internal control weaknesses and of devising audit procedures to test whether or not such weaknesses are being exploited fraudulently. Even if no fraud is disclosed, and the weakness does not warrant qualification of the audit report, it is essential that the weakness be outlined in writing to management.

The client concerned pays salaries by bank transfer. The bank is advised by letter of the transfers to be made to the credit of the respective employees' accounts, and subsequently puts a debit note through the client's account to cover the total amount. The transfer letter is prepared by the accountant, signed by the manager or his assistant and returned to the accountant for forwarding to the bank.

At the time of one month-end transfer the accountant, after getting the transfer letter signed and before forwarding it to the bank, raised the total of the transfer and the amount of the transfer to his own account. The alterations were not questioned by the bank. At the same time he raised by a corresponding amount the total of the office copy of the letter and the amounts of the transfers to the accounts of two other employees, one who had just started and one who had just left. In checking the office copy of the transfer letter to the employee record cards the amounts apparently transferred to the accounts of the above-mentioned two employees appeared reasonable because the accountant had also advanced the date of hiring and extended the date of leaving, respectively.

The above situation was disclosed by comparing the details of the office copy of the transfer letter with the original letter at the bank. (This practice is comparable to that of comparing duplicate deposit slips with the originals at the bank.).

(*Audit cases such as the one above will appear from time to time in The Students Department. They are contributed by practising accountants with a view to providing material of interest and assistance to students. The facts of the cases are edited so that the identities of the contributor and the client are disguised.*)

Audit Incidents

A new junior, working on one of his first jobs, was asked by the senior in charge to check the additions in the client's books. The senior also instructed him that one of the clerks in the general office would permit him to use an adding machine for this purpose. The junior gathered up the books he was to add, and proceeded to scan the desk tops in the general office for an adding machine. Finally he spotted one and asked the clerk sitting at the desk if he could use the adding machine to check some additions. "That," stated the clerk "is not an adding machine. It is a cheque-writer."

W. H. C.

(*Readers are invited to submit their own "audit incidents", amusing or tragic, for publication in this section.*)

CORRESPONDENCE

Sir: The emphasis which contemporary accounting theorists have placed on the profit and loss statement is often accompanied with a tacit apology, since it tends to relegate the balance sheet to nothing more than a balancing document. In commending *Lifo* inventory valuation or the not-yet-accepted current dollar depreciation charge, it is assumed that the balance sheet presentation of inventories and fixed assets must therefore be less useful as a means of presenting asset "values". In other words, you can't have your cake and eat it, too.

It seems to me that this need not be the case — that a current dollar profit and loss statement can be combined with a balance sheet prepared on the traditional cost basis. The alterations which are needed to make this possible are in the presentation of net profit and in the organization of the earned surplus account.

If management feels it is important to receive information on operations in terms of current dollars, then let the operating accounts be charged with the applicable amounts, cost of goods sold at *Lifo*, and fixed asset depreciation at amounts computed by applying a price index to the value of fixed assets carried in the accounts.

For the published financial statements, the inventory can be valued at *Fifo* and depreciation computed on an historical cost basis. The difference between the two would be carried to a profit and loss adjustment account and would be shown on the profit and loss statement below the operating net profit at current dollars figure, to arrive at a net profit carried to earned surplus which would correspond to traditional rules.

Further, if management wished to indicate clearly what amount it considers available for dividend distribution in relation to realized earnings in current dollars, the balance sheet should show earned surplus divided into two portions: a current dollar portion and an adjustment to cost portion. The net profit from operations at current dollars would be transferred to the first, and the adjustment to net profit, analyzed perhaps into the two elements of inventory and depreciation, to the second account.

The result, as I see it, would be to provide adequate disclosure with a minimum of explanation, and to give both management and investor more information than is now given. In addition, a conventional net profit figure would be provided for the satisfaction of the income tax authorities.

P. F. OLIPHANT, *Toronto*

Editor's Reply

I have often wondered why we have not heard more about restating *lifo* inventories at a more up-to-date "cost" figure (e.g. *fifo*) for balance sheet purposes.

I am not sure, however, that I agree with you in your proposed treatment of the credit side of the entry. To make the adjustment through the bottom part of the income statement is, it seems to me, like saying that you are not really convinced that *Lifo is* the appropriate method of measuring income. For this reason, also, I question whether one should describe the credit arising from increasing *Lifo* inventory to *Fifo* for balance sheet purposes as "earned" surplus; if *Lifo* is the correct cost figure, I cannot see that the amount by which it is increased on the

balance sheet has been "realized". *Lifo* is really a special definition of income and its advocates would not concede that any income had been realized until revenues had covered the current cost of replacing the goods sold.

But this is only my own view. I realize there is authority for the presentation you suggest. In "An Introduction to Corporate Accounting Standards", Paton and Littleton do not say what they would do on the balance sheet if *Lifo* were used for measuring income, but they do discuss the problem of depreciation charges on a current cost basis. What they say in this regard (pages 136-7) would seem to lead to your suggestion: they insist that the accountant is not relieved "of the imperative necessity of presenting a final figure of net income in the income statement of the enterprise as a whole which conforms strictly to the cost standard throughout". They argue that, "The requirement then is the reporting in the income statement of a figure designed to readjust the net previously reported from a managerial standpoint to the net reported from the standpoint of cost incurred and legal recognizability." Even here, however, the *Lifo* advocate might well argue that *Lifo* does conform to "the cost standard' so that no further adjustment to cost is required.

Rejoinder

Sir: You appear to have agreed with me about the need for a double-valuation of inventories, since your criticisms are directed mainly at my suggestions for dealing with the credits arising from such procedure. I agree that the adjustment balance should not appear on the balance sheet as an item in earned surplus.

Other possibilities exist, many of which must have occurred to you. For instance, a new account might be created standing between the surplus statement and the balance sheet, designed to show clearly the influence of price changes in the measurement of income and net worth. Or the income statement might be modified to give an analysis of price change effects in a new section.

Subject to your correction, however, I think I still prefer my original suggestion, for the reason that it does not disturb too radically what have become the familiar forms of the various financial statements. You may call this either natural conservatism or fear that too unusual a suggestion might be thought not worth consideration. In the long run, though, the most pressing thing is that price change influences should be shown somehow. *Where* is secondary, provided only that their presentation does not completely violate established customs, or mislead an intelligent reader of the statements in which they occur.

P. F. O.

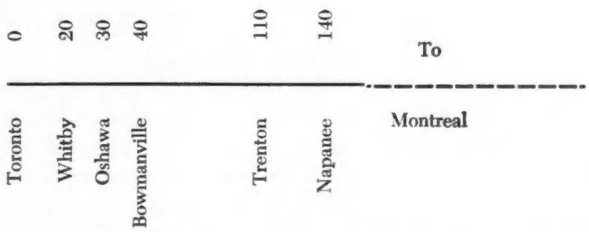
Editor's Reply

I should like to state a personal preference for the following accounting treatment: when *Lifo* inventory is debited to increase its cost to *Fifo* for balance sheet purposes, the corresponding credit might be to a "Price adjustment account". This balance, without being closed either to profit and loss or earned surplus, might be carried directly to the balance sheet and shown as a separate item under shareholders' equity entitled, "Credit arising from re-stating *Lifo* inventories at *Fifo* cost for balance sheet purposes".

(*Comments welcome – Ed.*)

PUZZLE

An oil company operates six service stations along the road east from Toronto to Napanee as follows:



Each of these service stations is equally busy, and the company must send a truck from a central storage tank to supply them with gasoline. Where should the central storage tank be located to minimize the amount of travelling required for this purpose?

(*The solution appears at the end of this month's Students' Department.*)

NOTES AND COMMENTS

The Fallacy in "Dollar Averaging"

There may be something to be said – we are inclined to think there is – for an investment policy of putting a fixed amount of money into stocks each month (or other period). One of the arguments sometimes heard for this practice is, however, fallacious. The argument is that the average price per share will always be more than the average purchase cost per share.

Suppose, to illustrate, we decide to invest \$3,000 a month (this is just an example) in shares of A Co. Ltd., and that the price per share is \$50 in month 1, \$40 in month 2, \$60 in month 3 and \$100 in month 4. Our purchases are, then,

Mo. 1 – 60 sh. at \$50	\$ 3,000
Mo. 2 – 75 sh. at \$40	3,000
Mo. 3 – 50 sh. at \$60	3,000
Mo. 4 – 30 sh. at \$100	3,000
215 shares	\$12,000

The average cost per share of these purchases is

$$\frac{\$12{,}000}{215} = \$55.81.$$

The average price per share is

$$\frac{\$50 + \$40 + \$60 + \$100}{4} = \$62.50.$$

The arithmetical fact that average cost per share is less than average price per share is used as a recommendation for the investment policy. The error lies in the suggestion that "average price per share" (\$62.50 calculated above) can have a valid meaning. We have used a simple average when we should have used a weighted average. If we weight each price per share with the number of shares purchased at that price, we will get the proper arithmetic average of stock prices; and it will be the same as the average cost per share of purchases:

$$\frac{50(60) + 40(75) + 60(50) + 100(30)}{60 + 75 + 50 + 30}$$

$$= \frac{12{,}000}{215} = \$55.81.$$

This argument for "dollar averaging" assumes moreover that the stock will be held. It would certainly be possible to sell at a loss at various times. If, for example, the 135 shares purchased in the first two months were sold at $40 (the price prevailing in the second month), there would be a loss of $6,000 – (135 x 40) = $600.

The arithmetical relationship mentioned also requires that an equal amount will be spent each month on the same stock. If we insist on devoting disproportionately large amounts of money to the purchase of shares which happen to be at their highest prices, we will of course get an average purchase cost which is higher than the average of the prices prevailing at the times of the various purchases (assuming the latter average means anything.)

As an example, suppose we plan to invest $3,000 a month in the shares of three companies, not applying an equal amount of money to each of the three stocks each month. Our experience might be as set out in the illustration below.

For each of the three companies, the average purchase cost is greater than a simple arithmetic average of the prices prevailing when the respective shares were bought.

— The Editor

Illustration

Month	*X Co. Ltd.*	*Y Co. Ltd.*	*Z Co. Ltd.*	*Total*
1	20 shs. @ 40 = $ 800	50 shs. @ 20 = $1,000	120 shs. @ 10 = $1,200	$3,000
2	30 shs. @ 50 = $1,500	50 shs. @ 30 = $1,500	———	3,000
3	10 shs. @ 30 = $ 300	20 shs. @ 15 = $ 300	200 shs. @ 12 = $2,400	3,000
	60 shs. @ 43.33 $2,600	120 shs. @ 23.33 $2,800	320 shs. @ 11.25 $3,600	$9,000
Unweighted average of prices	$40.00	$21.67	$11.00	

SOLUTION TO PUZZLE

The location of the tank should be the *median distance* of the service stations, from Toronto. It is a characteristic of the median that the sum of the absolute deviations of values of the individual observations from their median value is less than from any other number.

The median may be defined as any value that neither exceeds nor is exceeded by more than half the observations.

In this instance, the values for each of the six observations are expressed in miles from Toronto. Since there are six observations, the median value falls between Oshawa and Bowmanville. The tank may be located anywhere along the road between these points: the total mileage of a round trip from the tank to each of the six service stations will be

480 miles. If the tank is located either to the west of Oshawa or the east of Bowmanville, the total mileage of a round trip to each service station will be greater than 480 miles.

Note that the median distance is *not* the number of miles midway between Toronto and Napanee.

The calculation of the median may perhaps be understood more readily from the following frequency distribution:

THE X OIL COMPANY LIMITED

LOCATION OF SERVICE STATIONS TORONTO AND EAST

Distance from Toronto in miles	*Number of service stations*	
Under 5	1	(Toronto)
5 – 14	0	
15 – 24	1	(Whitby)
25 – 34	1	(Oshawa)
35 – 44	1	(Bowmanville)
45 – 54	0	
!		
!		
!		
105 – 114	1	(Trenton)
115 – 125	0	
125 – 134	0	
135 – 144	1	(Napanee)
	6	

We now see that there are three observations below 35 miles from Toronto, and three observations 35 miles and more from Toronto. The median distance, using the particular class limits of this table, is therefore 35 miles from Toronto. We might, however, have chosen other class limits of a general width of ten miles (e.g., 0 – 9; 10 – 19, etc.) and still have had the same distribution of observations. Thus the median might assume any value from 30 to 40 miles from Toronto.

NEWS OF OUR MEMBERS

British Columbia

L. C. Wright, C.A. has been elected a vice-president of Canadian Bechtel Limited.

R. J. Rose, C.A. announces the removal of his office to 1490 West Broadway, Vancouver 9.

Young, Peers & Milner, Chartered Accountants, announce the opening of a branch office at 690 #3 Rd., Richmond.

J. M. Standeven & Co., Chartered Accountants, announce the admission to partnership of E. J. Parker, C.A. The practice of the profession will be continued under the firm name of J. M. Standeven & Co. with offices at Campbell River and Courtenay.

H. J. Meyer, C.A. announces the opening of an office for the practice of his profession at 185 E. 37 Ave., Vancouver.

Nova Scotia

C. L. McCallum, C.A. announces the removal of his office to 270 Quinpool Rd., Halifax.

Ontario

Andrew Pal, C.A. announces the removal of his office to 4 Albert St., Toronto 1.

G. D. McLeod, B.A., C.A. has been appointed office manager of A. Kimball Ltd.

M. K. Levinson & Company, Chartered Accountants, announce the removal of their offices to 353 Dalhousie St., Ste. 201, Ottawa.

J. A. Medland, C.A. has been appointed to the Board of Directors of Atlantic Acceptance Corporation Ltd.

Gilbert A. Doe & Co., Chartered Accountants, announce a change in firm name to Doe, Shaughnessy & Linn, with offices at 67 Yonge St., Toronto.

OBITUARIES

We regret to announce the death of the following members:

SASHA M. A. LAJDA – in his 32nd year. Mr. Lajda received the degree of Bachelor of Commerce from McGill University in 1953. He was admitted to membership in the Quebec Institute on March 10, 1959. At the time of his death, Mr. Lajda was employed by the Canadian Pacific Railway Company.

STANISLAS HELIE – décédé le 18 septembre 1958, à St-Grégoire, Cté de Nicolet. Monsieur Hélie est né à St-Grégoire et a fait ses études à l'Ecole des Hautes Etudes Commerciales de Montréal où il a obtenu, en 1916, une Licence en Sciences Commerciales. Monsieur Hélie a ouvert, en 1918, son propre bureau de comptable public à St-Grégoire et y a exercé continuellement sa profession jusqu'à sa mort. Il avait été reçu à l'Institut des Comptables Agréés de Québec en 1946.

EDGAR W. FORWARD – A pioneer Vancouver Island chartered accountant, Mr. Forward died on May 23 at Ladysmith, B.C. He was born in Iroquois, Ontario in 1875, qualified with the Quebec Institute and moved to B.C. in 1910. In 1921 he affiliated with the B.C. Institute, and in 1929 commenced practice in Nanaimo and Ladysmith, retiring only in 1955 on reaching the age of 80.

CORRESPONDENCE

Toronto, May 15, 1959

Sir: I have acquired a copy of "American Foundations and their Fields", 7th ed., by W. S. Rich. It is a project undertaken by the "American Foundation Information Service", 527 Madison Avenue, New York 22, N.Y. The contents of the book suggest to me that there may be many in the C.I.C.A. who might find it interesting.

It is a skilfully prepared report on 4,164 research and benevolent funds which are now operating in the United States. The total assets involved is the almost incredible sum of $4½ billion.

In the classified "Index of Fields" or described objectives we find only one fund addressed towards the improvement of accountancy, as follows:

"Purpose: Income devoted to projects relating to the profession of accountancy and to aiding accountants and their families who are in need.

"Financial Data (1954):

Total assets $266,874. ———

———grants of income $11,369.00"

At first glance, we might conclude that the problems of accountancy may not expect much nourishment from this great source of wealth which these many funds represent. However, such a viewpoint is quite untrue. Many of the funds are so constituted that whenever or wherever a worthwhile objective is initiated intelligently, an appropriate amount of wealth will be freely allotted to finance the undertaking.

The true reason, therefore, why no more impressive sum has to date been directed towards the improvement of accounting thought is because none of us has shown himself to be sufficiently interested in our subject to ask for it.

Specifically, accountancy needs a university to undertake the introduction of pure scientific thought as it may be applied towards the discovery of the basic principles of our subject. We require a full-time research group of devoted men, financially well-supported and unhampered, except to the extent that it must report from time to time to those who await its findings.

It is my personal view that, until we have submitted our notions of accountancy to the critical abstract tests for truth which the scientific method prescribes, we do in fact know nothing.

James R. Neff, C.A.

INSTITUTE NOTES

B.C. INSTITUTE

C.A. Club of Vancouver: About 60 members attended the second annual C.A. Club smoker in the Electrical Workers Hall, 111 Dunsmuir St., on May 22. Floyd Harding organized a superlative program of exhibition judo and boxing, a floor show featuring Barney Potts and Wally Peters and community singing.

Club activities for the season closed with a luncheon meeting at the Hotel Georgia on Monday June 1, 1959, featuring an address by Vancouver *Sun* advertising director John Leckie on "The Place of the Free

Press in a Democratic Society". Candidates for the 1959-60 Institute Council were introduced to the luncheon assembly.

C.A. Wives Club (Vancouver Chapter): The following members were elected to the 1959-60 Executive Board at the annual meeting on May 29: Mrs. A. D. (Grace) Russell, president; Mrs. M. (Elizabeth) Linsley, vice-president; Mrs. R. F. (Marjorie) Gardiner, treasurer; Mrs. J. C. (Hilda) Tarbuck, recording secretary; Mrs. G. O. (Liz) Cumpston, corresponding secretary; Mrs. M. W. (Ann) Angus, public relations; Mrs. W. J. (Marguerite) Brassington, entertainment; Mrs. D. H. (Toni) Dunn, telephoning; Mrs. L. W. (Gwen) Manuel, membership.

ONTARIO INSTITUTE

Research Grant: The trustees of the Chartered Accountants Universities Research Trust Fund are pleased to announce that a grant of $1,500 has been made to Professor J. E. Sands, C.A., of the Department of Political Economy of the University of Toronto. Professor Sands proposes to consider the principles, procedures, and practical difficulties involved in accounting for intangibles under three general headings: (1) fundamental characteristics of intangibles and the specific types of assets which fall into this category; (2) recognition of intangible values in accounts and the determination of initial valuations; (3) consumption of intangible values in the production of income.

The study will probably take a year and culminate in a monograph suitable for publication.

Personnel Selection — Hamilton: Members in the Hamilton area should note that through the kindness of Riddell, Stead, Graham and Hutchison, and in cooperation with the Hamilton and District C.A. Association, a personnel selection testing centre has been established in suite 1113, Pigott Building, Hamilton. The tests will be given each Wednesday morning if there are candidates. The test covers the verbal and quantitative ability of the applicant and costs $5.00.

QUEBEC INSTITUTE

Annual Meeting: J. E. Maheu, senior partner in the firm Maheu, Noel & Cie., Montreal, was elected president of the Quebec Institute at its 79th annual meeting held at Macdonald College, Ste. Anne de Bellevue, P.Q. on June 15. J. L. Watt became first vice-president; W. V. Victor, second vice-president; Paul Bruneau, Quebec City, secretary; and J. P. Kinghorn, treasurer. Immediate past president is H. I. Ross. Elected to the Council for one year were: G. F. Abbott; T. P. Brown; Roger Charbonneau; A. M. Henderson; J. R. Nadeau; J. H. Yates; for two years: F. S. Capon; Lionel Gascon; Charles McLaughlin; Jacques Raymond; G. M. Simpson; Dr. Henry Wojcik. C. D. Mellor is executive secretary.

Third Annual Conference: A review of the third annual conference of the Quebec Institute held at Macdonald College, Ste. Anne de Bellevue, P.Q. on June 15 and 16 is scheduled to appear in the August issue of the magazine.

Golf Tournament Winners: The Quebec Institute annual golf tournament was held on Monday, June 1, at Ilesmere Golf and Country Club. The Hutchison Cup for low gross was won by Roy Green. Clifford F. Brown captured the Valiquette Cup for low net. The McDonald Cup was won by the team from McDonald, Currie & Co. consisting of Messrs. B. M. Adair, G. C. Baird, J. P. H. Castle and H. A. Jones.

WESTERN ONTARIO C.A. CLUB

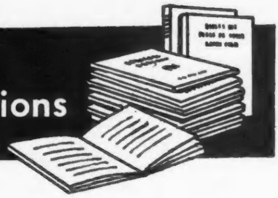
At the annual meeting of the C.A. Club of Western Ontario, held on May 21, 1959, at the Cobblestone Inn, Byron, the following members were elected to the 1959-60 executive: R. A. Martin, president; J. J. Cronin, past president; O. W. Parkes, secretary; W. W. DeShane, treasurer; G. M. Stone, G. F. Francolini, W. G. Brown, W. W. Buchanan, D. W. McKinnon, C. L. McAlpine.

After the meeting and a steak dinner, a film was shown dealing with a local T.V. station and its first hilarious 5 years of operation.

The club now has a membership of nearly 200.

Continued on page 84

List of C.I.C.A. Publications



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Continued from page 82

EASTERN TOWNSHIPS C.A.'s

The Chartered Accountants Club of the Eastern Townships will give a $100 cheque to the graduate of the University of Sherbrooke Commerce course who attains the highest marks in the chartered accountants examinations to be held this fall.

Mr. Marcel Laverdure, president of the club, recently gave the cheque to Msgr. Irenee Pinard, rector of the University of Sherbrooke, and to Charles Emile Belanger, C.A., dean of the faculty of commerce and treasurer of the Institute of Chartered Accountants of Quebec.

HAMILTON C.A. ASSOCIATION

The annual meeting of the Hamilton and District Chartered Accountants Association took place on June 9 at the Brantford Golf & County Club. On the executive committee elected for 1959-60 are: C. G. Robinson (chairman), W. C. Chick, P. F. Connell, L. H. Digby, M. P. Greenhill, S. G. Jackson, A. W. Parish, W. W. Pollock, H. P. Sellers.

ONTARIO STUDENTS

Representatives of out-of-town branches and executive members of the Ontario Institute Council were entertained by the association's council at a dinner prior to the annual meeting on May 21. After the dinner the guests and the council attended the meeting held in the C.A. Building. Election results were announced and at a subsequent council meeting Tom Greig of Peat, Marwick, Mitchell & Co. became president; Ralph Selby of Price Waterhouse & Co., vice president; Miss Pat Dugit of Thorne, Mulholland, Howson & McPherson, secretary; and Bruce Beatty of Wilton Eddis & Co., treasurer.

Blazer Crests: Due to a manufacturing error, a recent delivery of crests was mounted on black blazer cloth instead of the usual navy blue material. Trimmed close to the crest, this is not very noticeable, and the manufacturer is prepared to accept $2.50 per crest compared with the normal $7.00. If you are interested in this "special", your order, with remittance, should be sent to the association at 69 Bloor St. E., Toronto 5.

Golf: Over 200 Toronto students swapped their brief cases for golf bags on June 4, and in brilliant sunshine played the immaculate Aurora Highlands course. In a tight contest, the tournament prize for low net again went to Doug French of Price Waterhouse & Co. with a 4 over par, 75. Close behind, each with 76, were R. Coole, Deloitte, Plender, Haskins & Sells, and Stephen McLean, Loftus A. Allen & Co. Team consolation prize, the "Secretary's Cup", for highest gross on four players, was awarded to a group of honest young fellows from Hilborn & Co. Please! It is not polite to ask what their average gross was!

QUEBEC STUDENTS

Summer Refresher Courses: The Students Society announces that summer refresher courses are available again this year at l'Ecole des Hautes Etudes Commerciales de Montreal for French speaking students preparing to write the Institute's intermediate and final examinations. These courses started at the first of June and will extend to mid-August. English-speaking candidates can avail themselves of summer coaching courses at McGill University. Arrangements have been made there that lectures will run from the beginning of July to the end of August.

VANCOUVER STUDENTS

Officers of the Vancouver Students Society for the 1959 year include: president, Richard Puder; vice-president, Norman MacKinnon; secretary, Don Usher; treasurer, Peter Coe; education committee, chairman, Ray Nelson; entertainment committee chairman, Norman Cousins; public relations committee chairman, David Helliwell.

Under the direction of Frank Radbairue, the 1959 spring bowling league commenced a 6-week season on May 5, at the Deluxe Bowling Alleys.

The annual "Technical Session" (stag) was held on Friday evening, May 8 at the Kerrisdale Legion Hall.

The editor welcomes information for this column. News of members and provincial Institutes' activities received up to and including the 13th of the month will appear in the following issue of the journal.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Closing date is 13th of preceding month.

OFFICE MANAGER: Young C.A. with 2-3 years industrial experience required for position of office manager by manufacturing company located in Scarborough. Must have good working knowledge of business methods and personnel management. Apply in writing giving full details of age, experience, salary requirements, etc. Box 910.

CHARTERED ACCOUNTANT: Large, expanding, Canadian multi-plant organization requires assistant to chief financial officer. Real opportunity for chartered accountant with varied industrial experience. Applicants should be in the age group 35-45 years. Apply Box 909.

CHARTERED ACCOUNTANT required by the Board of Public Utility Commissioners, Province of Alberta. Duties to consist of conducting such audits and examinations as the Board may direct. Reply stating age, details of experience and salary expected to the Board of Public Utility Commissioners, Edmonton. All replies confidential.

CHARTERED ACCOUNTANT, B.Com. degree, broad professional, insurance, municipal and taxation experience requires a position. Box 891.

PRACTICE WANTED: Outright purchase, or partnership with sole practitioner anticipating retirement. Box 913.

CHARTERED ACCOUNTANT seeks position leading to partnership or succession with practising firm in Montreal. Box 907.

CHARTERED ACCOUNTANT: Recent graduate desires correspondence regarding succession, with practising member who seeks semi or total retirement within 10 years. Montreal. Box 906.

INTERMEDIATE STUDENT required by firm located in Eastern Ontario. Must be bilingual. Reply in own handwriting stating experience, references and salary expected to Box 908.

CHARTERED ACCOUNTANT WANTED: Practitioner in Saskatchewan grain belt desires chartered accountant on partnership basis. Correspondence invited. R. H. Burroughs, C.A., Box 502, Swift Current, Sask.

SECRETARY specializing in Financial Statement work desires clientele. Box 128, Don Mills P.O., Don Mills, Ont.

CHARTERED ACCOUNTANT, Jewish, small practice, desires part-time work with C.A. or position offering prospects of eventual development to partnership basis or an agreement for succession, Toronto area. Box 912.

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